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GUATEMALA: PRODUCTS & MARKETS FOR EXPORT GROWTH

FINAL REPORT

MARKET PROFILE: OFF-SHORE DATA PROCESSING SERVICES

Bureau for Private Enterprise
U.S. Agency for International Development

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Prepared by: *Ernst & Young*

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MARKET PROFILE:

OFF-SHORE DATA PROCESSING SERVICES

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OFF-SHORE DATA PROCESSING SERVICES

I. The Product, its Production and Industrial Outlook

a. Description of Product

This industry was newly defined by the 1987 revision of the U.S. Standard Industrial Classification (SIC) system. Data processing services establishments are classified in SIC 7374 and 7376; computer professional services in SIC 7371, 7379, and 8243; and electronic database services and videotex in SIC 7375. Data entry is defined as a means of converting information from "hard" or paper form into digital form so that it can be stored electronically. The entry of data is commonly referred to as "keypunching", "keyboarding" or "keying".

Keying can be straight input of data exactly as it is sent to the company, e.g. manuscripts. In addition, data can be entered into databases. Some database entry tasks require that those inputting the data understand the type of information being entered in each field of the database.

The simultaneous decline in the cost of electronic office equipment and increase in the cost of employing U.S. citizens to perform routine office tasks have made off-shore data processing services a financially attractive alternative source for data input for U.S. firms. In some instances U.S. firms have established their own off-shore data entry facilities, such as American Airlines' facility in Barbados. However, most firms who want to take advantage of the cost benefits of off-shore data processing to accommodate overflow, rely upon service companies which in turn contract out some or all of the work to off-shore companies. The use of off-shore data entry companies has provided employment to approximately 3,500 Caribbean Basin workers who are performing tasks such as computerizing U.S. telephone books, typesetting manuscripts, keypunching address labels, processing coupons and applications, etc.

Some service companies have begun to take advantage of "in-home keying" as an alternative to sending their jobs off-shore. In-home keying involves the contracting out of work to people in their homes, such as mothers who want to stay home with their children but would like to simultaneously earn money. These housewives purchase their own hardware and software, and respond to advertisements in local papers placed by data entry service companies.

Approximately 15% of data processing revenues is from non-U.S. sources. The main overseas markets are Japan, the United Kingdom, France and West Germany. The international activity of smaller data

processing firms comes in the form of data entry operations in foreign countries, particularly the Caribbean.

Computer professional services companies provide contract programming and design services; advice on such problems as computer and peripherals systems selection, computer and telecommunications interfaces and linkages, and systems and network management; and education and training on the use of computer systems, software and computer/telecom networks.

The electronic database services industry has continued to grow. Revenues were estimated to have risen to $6.2 billion in 1988 due to a strong U.S. economy, greater awareness and acceptance of electronic forms of information, the proliferation of personal computers and improvements in technology. The databases in greatest demand included those that supply consumer information, credit information, news items, legal information and financial data. The U.S. is the greatest provider of database services. The majority of database producers are commercial publishers and government agencies, but databases are also produced by trade associations, businesses, professional groups, academic institutions and other non-profit organizations.

b. Production Considerations

The basic equipment in which off shore data entry services companies need to invest for production are hardware and software. Hardware includes computers capable of handling a significant amount of data, such as IBM personal computers (PCs) or IBM compatibles. (The average number of personal computers in an off-shore company is 30 to 40.) The type of software to be installed depends upon the nature of the work the company wants to perform, i.e. databases, word-processing, spread-sheets, graphics, etc.

Electronic data transmittal is the fastest and most preferred form of sending and receiving information. However, while access to and utilization of electronic data transfer capabilities are being further developed in Guatemala, transmission of hard copies to Guatemala via air courier will be necessary. Therefore, the jobs that would best suit this limitation are those that allow sufficient turn-around time, i.e. jobs that are less time-sensitive. This issue is addressed in detail in a later section of this profile.

Most data entry jobs require 99.95% accuracy as a minimum, such as legal/litigation support database input. A traditional method of achieving this accuracy has been the use of "double entry verification" and "key verification.

Double entry verification is achieved by the following steps:

- 2 people enter the same data on different computers
- a computer program compares the two entries and stops when discrepancies appear
- a quality control person oversees the correction of the data

Key verification involves one person entering the data, and then a second entering the same data directly over the first entry. If, while the second person is inputting, the entries do not match, the computer freezes and corrections are made.

c. Industrial Outlook

It is becoming increasingly imperative that data entry service companies, both on- and off-shore, respond to technological advances, particularly because the turn-around times and quality of output expected by the market, which are two important characteristics for service companies, are the first to be affected by technological changes. In addition, some sectors may shrink as a result. Growth of data entry companies is dependent upon:

- sensitivity to technological change
- the mode of transmittal being used, i.e. air transportation or electronic transmission.

Technological advances are presently and will continue to significantly affect the market very rapidly - there are currently satellite capabilities, optical scanners and image scanners. The input of data by means other than keying is referred to as "data capturing" by the Data Entry Management Association (DEMA). Satellite capabilities can be illustrated by teleport facilities which give data processing companies direct links to a satellite earth station accessing the U.S. domestic telecommunications network. Teleport service quality and costs for dedicated voice and data line will compare favorably to those provided through standard international telecommunciations arrangements.

Optical scanners and image scanners are only beginning to signficantly affect the market. These types of equipment are able to convert an image (text or non-text) into an internal digital representation so the data can be stored on a disk or analyzed by a computer program. Scanners of text are capable of converting only 10-pitch pica print; any stray marks on pages to be scanned can result in misreading of text. Thus, some industries, such as publishers and law firms, are beginning to convert simple text through scanners, meaning that they will not use outside data entry but the technology has yet to be developed to pose a significant alternative to keying.

Many industries have adopted on-line entry, which means that a transaction is simultaneously entered and processed. For example, when

purchasing insurance, rather than filling out forms, the salesperson enters the customer's data directly into the computer's database.

However, the arrival of cost efficient, highly capable scanners could eventually mean a substantial decrease in off-shore data entry work. An executive of one company believes that his firm will continue to utilize off-shore data entry services as long as the cost-effectiveness of satellite transmission is not outpaced by advanced technologies that could eliminate the need for a majority of data-entry jobs altogether.

About 25% of the data entry inputting being done in the Caribbean is located in Jamaica's approximately 30 data processing companies. Other competing islands are the Dominican Republic and Barbados whose data processing services are based on the air-cargo transfer of documents to, if not from, the processing facilities. A U.S. company has entered into a joint-venture with a Jamaican data processing company that has established the Caribbean's first image-processing business. The venture is using image scanner and satellite transmissions at a multimillion-dollar plant in the Montego Bay free trade zone. This is the first low-cost data processing service in the Caribbean where a physical transfer of documents is unnecessary. The company joins 10 other data processors in the Montego Bay zone using the satellite-linked Earth station located there.

Many off-shore offices in the Caribbean have closed down because of managerial and transportation problems. Included in managerial problems, are marketing problems. Many Caribbean companies made substantial capital investments in equipment and developing skilled labor. However, the inability to establish contact directly with "end users" (companies with internal needs for data entry in their normal everyday business) or service companies, led to the rapid demise of a significant number of companies. Apparently, the skills of the local data entry processers have not been stated as causes for failed companies.

II. Market Information and Considerations

a. Market Demand and Main Market Segments

There are certain tasks that, despite the current technological limitations of Guatemala, U.S. companies could send to the Guatemalans, namely those which are less time-sensitive.

Data entry needs of U.S. companies and organizations tend to fall into three categories, those that:

- require a 24-48 hour turn around time
- allow between 3 to 10 days

- have a deadline minimum of 10 days, these are the least time sensitive.

Most of the data entry requirements in the U.S. today are met within 48 hours and therefore are not likely to be fulfilled by off shore operators who require at least 3 days for the entry and international transmission of the data. Facsimile transmission exists, but until it becomes faster, more versatile, and less expensive, it is not a viable solution to companies with high volume data entry needs.

The second category, of jobs requiring between 3 to 10 days, is a viable market mostly for offshore data processing companies with sophisticated electronic transmittal capabilities. The volume of jobs sent off-shore is usually high. And for those countries without these transmittal capabilities a total of 6 days of international travel leaves only 4 days for input. Companies in such countries must, therefore, be able to be completed within the four-day period.

The greatest opportunity for Guatemala exists in the category of the least time sensitive jobs. These are increasingly categorized "information retrieval systems". In this situation a vendor sells such a system to a company to assist in the company's data management. Often, after a company begins using the system management then realizes that inputting its back-files which are in hard copy would also be useful and save space. The entry of 3 to 5 years worth of information at U.S. wages would be a significant investment and the alternative of off-shore entry would be highly attractive. Companies would then either xerox their files to maintain a copy in house and ship the copy off-shore or have the files microfiched and have these sent off-shore.

Other less time sensitive jobs are litigation support projects in which the information on a high volume documents to be used in litigation is entered into database software. There has been, however, the introduction of new database software that could replace off-shore litigation support entry. This software possesses on-line data validation capabilities, thereby allowing direct entry by the end-user. The end-user is usually a paralegal who would no longer need to 1) confirm entries since the software automatically checks new entries against old ones or 2) enter full names that had been previously entered, thereby not having to retype commonly used words (as the software can recognize names and will automatically enter those previously entered).

There are two types of coding (input of database information) "bibliographic"/"objective" coding and "subjective" coding. The former terms refer to well-defined areas of input where entry is strictly that which is in a specified category, e.g. name, date, address, age, etc. "Subjective" coding requires the ability to analyze the given data, e.g. the main ideas of a paragraph, the causes behind a certain action, etc. Guatemala would do best with "bibliographic"/"objective" coding because of language and

industry nuances, unless perhaps the firm employs native English speakers familiar with the particular industry.

The principal target market for Guatemala at this time would be the service companies. "End users" such as law firms, airlines, hospitals, etc. have traditionally employed U.S. service companies to act as a liaison between the person(s) performing data entry and the end user. Often, U.S. service companies have their own in-house staff and send only overflow off-shore. In some instances, service companies consist of only administrative and marketing staff and send all the work requested by the end user off-shore.

b. Major Factors in the Purchasing Decision, Including Pricing Considerations

The main producers of off-shore data entry services are in Asia and the Caribbean. The most important factors that U.S. service companies consider in choosing their off-shore data entry sites are:

- turn-around time
- quality of output, i.e. accuracy and adherence to instructions
- reliability of communication/transportation
- prices/10,000 keystroke, ranging between US$0.73-$0.96
- production costs
- available infrastructure
- language capabilities, especially English
- political stability

Although they are attractive elements of offshore data entry, low labor costs and low transportation costs to and from Latin America and the Caribbean are considered only after the other primary requisites have been met.

In terms of labor costs, Guatemala provides a significant advantage over the U.S. The U.S. direct labor costs for data entry services run from $6.00 to $12.00 per hour as compared to the Caribbean rate of US$0.73 to $0.96 per hour. Rates in the People's Republic of China, however, have been quoted as low as US$2.00 per week. However, transportation time and reliability are of concern to U.S. businesses. Companies use different methods of estimating their savings by going off-shore, some state they are saving about 75% on comparable labor output.

A keying rate of 10,000 keystrokes per hour is recognized as an industry standard.

III. Distribution Channels

a. How the Product Reaches the End User

Data entry reaches the end user via one of three principal methods. All three use some combination of air shipment or electronic transmission to move data back and forth between sites.

The least sophisticated method is to ship information by air in both directions. Typically, paper documents, microfiche, magnetic tapes, card, or discs or audio recordings are collected at one or more U.S. sites for packaging. In the case of paper documents, there may be some preliminary hand sorting at this time.

Documents are then packaged and shipped to the off-shore site via regular air freight or overnight courier services. On arrival at the host country airport, the packages are cleared through customs and delivered to the processing site by courier services or employees of the user firm. The information on the documents is keyed into the computer, the data is recorded on magnetic tapes, disks or cards, and shipped back to the U.S. where the data can be stored, printed on paper, or fed into a computer program for analysis.

The second method of linking sites involves air shipping documents from the domestic point of origin to the processing site and then electronically transmitting the digitized data back to its source or to other end users. Typically, the data processing sites are linked via terrestrial telephone lines to satellite Earth stations. The use of this method is, of course, limited by the availability and proximity of earth stations, but permits shorter turnaround times. Where satellite communication facilities are not available, it is sometimes possible to use submarine cable links to the continental U.S.

The third method is the use of electronic links to transmit the data in both directions. Documents are facsimiled in the U.S. and transmitted to the off-shore site, keyed and then retransmitted back to end users. Information that has already been digitized, but requires further processing or revision may also be sent abroad by simply "playing back" data on magnetic media and transmitting it from the U.S. to the off-shore site.

Two-way electronic links offer the shortest possible turnaround time, and may, in fact, be the only practical method of processing data off-shore when the ability to deliver it to end users within a very short time is essential.

Some U.S. firms have expressed concern with the security of data shipments. However, this has proven to be a minor problem in off-shore

sourcing. One courier firm in the Caribbean has stated that its shipments are accompanied and monitored by their personnel on a continuous basis.

b. Characteristics and Profiles of Possible Joint Venture, Investment and/or Marketing Partners

Saztec International
Kansas City, MO
(816) 483-6900

Saztec International has become one of the world's largest providers of data-conversion services. Its headquarters in Kansas City employ about 300 people and the company has several data processing facilities overseas. It owns 100% of its Scotland facility, 51% of its England facility and less than 50% of its Philippines facility, its largest facility, with approximately 1,300 employees.

Saztec's immediate interest in Guatemala would be to subcontract some of its overflow to Guatemalan companies. Given the results of subcontracting arrangements, Saztec may later consider entering into joint-ventures.

See Appendix A for more information.

Abingdon Keypunch, Inc.
2789 Philmont Ave.
Huntingdon Valley, PA 19006
(215) 885-8701

A Vice President at Abingdon, stated that he would be interested in finding out more about the Guatemalan company's capabilities. He had sent work to Barbados in the past and was disappointed with the poor quality and the fact that the Barbadian company never finished the job. He expressed the opinion that there were too many off-shore companies who did not know what they were doing.

CaribData
Miami, FL

The owner of the company is also a practicing attorney. The company has been in existence for three years, is involved primarily in litigation support projects and presently sources from Jamaica, and at times, from Barbados. CaribData performs jobs for airlines and name and address labels. The company pays between US$0.75 - $2.00 per 10,000 keystroke for key and double-entry verification.

Data Entry Management Association (DEMA)
101 Merritt
7 Corporate Park
Norwalk, CT 06851
(203) 846-377 or 1-800-888-6485

DEMA is an international association of information managers involved in both traditional and emerging methods of data entry, including key-to-disk, on-line, and distributed processing, voice entry, portable and personal computers and word processing.

The association is committed to promoting the profesisonal growth of those involved in the industry by focusing on successful managerial strategies that combine both human and technological resources.

From October 15-17, 1990 at the Mirage Hotel in Las Vegas, Nevada, Data Entry Management Association (DEMA) will hold its 14th Annual Conference and Exposition. Participation in this would include the following benefits:

- Generate hundreds of high-quality sales leads
- Demonstrate the company's complete line of products and services
- Increase the company's visibility
- Penetrate new markets

Information on this conference is included at the end of this profile in Appendix B.

c. Import Duties

U.S. telecommunications and customs regulations at present raise no obstacle to off-shore keying. Customs laws govern the importation of documents and magnetic recordings, but tariffs are extremely low or not levied at all. U.S. companies keying their own business data (e.g. payroll, inventory, archives, etc.) may import the records duty free. These are classified under schedule 8, pt. 7 of the Tariff Schedule of the United States Annotated (TSUSA) (1981) as item 870.10-"records, diagrams and other data with regard to any business . . . operation conducted outside the U.S., whether on paper, cards, photographs, blueprints, tapes or other media."

Guatemala is a beneficiary country of both the Generalized System of Preferences (GSP) and the Caribbean Basin Economic Recovery Act (CBI). As a result, no duty is levied for any recorded magnetic tapes, cards, or discs which are classified under the U.S. Harmonized Tariff Schedule of the U.S. as H523, with added specificity regarding the size of the tape. In addition to properly completing Certificate of Origin Form-A at the point of entry, companies must provide Customs with the number of discs/tapes

entering the U.S. Those countries without GSP status pay 4.2% duty and Canadian companies pay 3.7%.

IV. Outline of Recommended Export Strategy

a. Key Factors that the Company Must Address as a Next Step

The data entry service company must assess its present capabilities, technological and personnel, to determine the types of jobs for which it would be best suited. Given the current lack of access to satellite earth stations in the country, jobs that can accommodate hard copy via air and electronic transmission are the best to focus upon at this time.

Next, in-house capabilities must be assessed.

- How many of the directors, managers, and staff speak English?
- Is there more training necessary for the staff? i.e. is there a sufficient supply of staff to perform jobs other than word processing, such as data base entry?

Once the skill levels and overall capabilities are assessed, Guatemala's data entry service companies should develop a marketing packet containing:

- a high quality, color brochure of illustrating its capabilities through photos of the work space and examples of work performed supplementing a textual description of the company and staff members' skills
- a representative price list containing the sample prices of various types of jobs at varying costs
- a list of references to which potential customers may refer, if necessary

Given Guatemala's unfamiliarity with penetrating the U.S. market as well as accepted American cost structures per job, it may be best for Guatemalan data entry companies to act as subcontractors to U.S. data entry service companies with extensive experience working with offshore companies. The development of this type of relationship would provide Guatemalan companies with a working knowledge of the U.S. market and the niche(s) in which they could best contribute.

b. Principal Considerations

The most important considerations regarding the final product are:

- turn-around time/reliable delivery
- quality of entry/reliability in terms of

convertability, if a disk or magnetic tape is used
legibility, when a hard copy is provided

The off-shore company must endeavor to ensure that jobs are completed and delivered on the date/at the time agreed to. This also includes the least time sensitive jobs.

The off-shore company should work towards establishing a reputation for a high quality of entry and reliability. When a job is accepted, the off-shore company should ensure that all instructions are clear. When a job is completed, the quality control manager should ensure that all instructions were followed and that all entries are as indicated on the original e.g. checking spelling. Quality control (99.9% error free) and reliability should be equal to U.S. based data entry facilities. Without this, off-shore data entry companies have little chance of success. Equity participation or, minimally, management control by an experienced data entry company in the off-shore company thus appears to be a critical element in providing access to the market as well as helping to ensure the success of the operation.

APPENDIX A

Off-Shore Data Processing Services

Market Expert/Buyer

Mr. Len O'Laughlin, Vice President of Operations for Saztec International for five years, has been invited to Guatemala to serve on the Ernst & Young team as the off-shore data processing services market expert. In Guatemala, Mr. O'Laughlin will participate in the market profile presentation and meet with potential suppliers to examine their capabilities and discuss opportunities for developing business relationships with Saztec. His visit will provide Guatemalan companies with an opportunity to hear an expert's view of the off-shore data processing market, in general, and more specifically, the potential for Guatemalan data entry service companies to act as business partners for and suppliers to the U.S. market.

Saztec, established in 1976, is one of the largest data conversion services companies in the United States. Headquartered in Kansas City, Missouri, Saztec's principal product is data base construction, i.e. Data Entry (Coding and Keying), OCR Scanning, Image Scanning, Post Processing, and Programming.

They have had very positive and extensive experiences through sourcing from the Philippines, Singapore, Australia and Scotland. They have also sourced from China, the Caribbean, South Korea and India, where their experiences had been less favorable.

Saztec is always seeking possibilities for reliable, quality and cost conscious domestic and off-shore vendors. Saztec's beginnings involved working with a small Filipino off-shore data entry company. Now, Saztec International has grown substantially and earned over US$20 million in revenues for fiscal year 1989. It has developed from data entry to creating software programs and performing whatever coding, formatting and computer processing a specific job may require. One of Saztec's most impressive jobs is its US$3.5 million four-year contract, which began in 1987, to convert the British Library's book catalogue, of 360 volumes, into a database.

Data Entry Management Association

DEMA

"DEMA Shows have been excellent for us...they bring us face-to-face with the industry decision makers."

-- James Barrett, President, Applied Learning Systems

Dear Marketing Manager:

With one simple step, you too can reach an extraordinary, world-wide buying audience! Statistics prove this group is something truly special:

- **94% have the authority to recommend or specify the purchase of data entry/imaging systems, products and services**
- **32% have the authority to directly purchase hardware, software, peripherals and more**

Where will you find these powerful decision makers? **At DEMA's 14th Annual Conference and Exposition, October 15-17, 1990, at the Mirage Hotel, Las Vegas.** In just three days, you'll come face-to-face with hundreds of key information management executives responsible for implementing, expanding and upgrading their companies' data entry/imaging operations.

It's your best opportunity of the year to talk with serious, interested buyers with a high level of purchasing authority. You'll meet Presidents, MIS Directors, Department Heads, Systems Development Directors, Operations Managers, Information Systems Analysts, Data Entry Directors and Managers and more!

The majority of these international buyers and specifiers come from large companies of over $1 billion in annual sales. **And the majority come to DEMA with immediate product needs.** These facts add up to your three best selling days of the year!

Take the step that guarantees you access to every vertical segment of the data entry/imaging market -- the step that puts you in direct contact with serious buyers for the latest technologies in the field -- the step that can activate hundreds of high-quality sales leads, expand your company's visibility and open new markets. Look over the enclosed brochure, then fill out the space application and mail it -- today!

Your competition will be there...your best prospects will be there - will you?

Sincerely,

Norman Bodek

Norman Bodek
President

P.S. Space is reserved on a first-come, first-served basis. For faster action, call us at **1-800-888-6485** today!

101 Merritt 7 Corporate Park • Norwalk, CT 06851 • 203-846-3777 • FAX: 203-846-6883

REACH THE DYNAMIC MULTI-BILLION DOLLAR DATA ENTRY/ IMAGING MARKET

DEMA DATA ENTRY MANAGEMENT ASSOCIATION

14th ANNUAL CONFERENCE & EXPOSITION

OCTOBER 15-17, 1990 THE MIRAGE HOTEL LAS VEGAS, NEVAD

IN JUST THREE DAYS:

- Generate hundreds of high-quality sales leads
- Demonstrate your complete line of products and services
- Increase your company's visibility
- Penetrate new markets
- And much, much more!

DISCOVER THE SALES POWE YOU NEED TO STAY COMPETITIVE IN THE '90s

You're right in the middle of a whirlwind! The information management industry is growing by leaps and bounds — creating a bounty of sales opportunities for your latest data entry/imaging products and services.

Industry experts predict that the U.S information and image management market will jump from $2.5 billion in 1986 . to $4.2 billion in 1991 ... and reach an astounding $6.5 billion by 1996*! And the greatest portion of this growth will come from increased sales of digital-based image management products and services.

There's no doubt that the 1990s will see the triumph of high-tech and traditional data imaging. As key punching gives way to image and voice technologies, the entire industry will see a shift in focus from hardware to software capabilities, from centralized data imaging systems to distributed data entry, and from data processing to information processing.

How can you stay competitive in this explosive environment?

By staying ahead of the competition. By making sure that your company's products and services are right up front in the industry's most dynamic selling environment. By reaching top-level information managers and data entry/imaging specialists who seek the latest technologies.

By exhibiting at DEMA!

Profit from DEMA's unique face-to-face sales environment

Exhibiting at the **DEMA** Exposition is on of the most cost-effective marketing investments you make. It's the only medium that puts you in direct contact with your best buyers — data entry/imaging managers and technical professionals with immediate needs for the products you sell.

DEMA is the ideal forum to:

- Display your entire line of hardware, software, peripherals and more
- Introduce new products, services, and product improvements
- Give hands-on demonstrations of equipment, systems and software applications
- Make contact with hundreds of hard-to-reach prospects
- Increase your visibility in the marketplace
- Maintain profitable working relationships with current customers
- Obtain hundreds of solid leads and develop future buying potential

* Coopers & Lybrand: *Information & Image Management The Industry & the Technologies*; copyright 1987

"UNISYS has been an active participant in the DEMA organization for over 15 years. The DEMA Conference is the only national data entry show and many participants use this show to select equipment."

Floyd Hale
Deputy General Manager
Software Products Division
Unisys

Present your entire product line to buyers with immediate needs

DEMA [illegible] the key information management exec[illegible] responsible for implementing, expanding and upgrading their companies data entry/imaging equipment, systems and services. They'll be looking for the latest technologies in key-to-disk, on-line and distributed processing, voice entry, portable and personal computers, imaging, word processing and more.

Attendees will be looking to buy:

IMAGING
OCR Equipment
Scanners
Imaging Software
Optical Disks
Electronic Indexing
Imaging File Systems
Imaging and Storage

DATA ENTRY SYSTEMS
Minicomputers
Microcomputers
Personal Computers
LAN's
On-line
Key-to-Disk

OFFICE AUTOMATION
Word Processing Systems
Storage & Retrieval Systems
Electronic Publishing Systems

COMPUTER & COMMUNICATIONS SECURITY
Computer Security Software
Record Storage/Management

MICROFILM EQUIPMENT
Computer Output Microfilm Systems
Microfilm Readers & Printers
Automated Retrieval Systems

SOFTWARE & SERVICES
Application Software Packages
Word Processing Software
Data Entry Software
Custom Software
Consulting Services

PERIPHERALS & ACCESSORIES
Hand Held Equipment
Forms & Supplies
Magnetic Media
Terminals
Printers
Voice Data Entry

ERGONOMICS
Furniture
Screens
Filters
Safety Devices

OTHER
Service Bureaus
Eyecare Programs
Exercise Programs
VDT Safety & Health Issues
Training Packages

DEMA Conference Program builds an informed buying audience

The DEMA Conference Program runs concurrently with the Exposition and attracts high-level information managers looking to stay on top of the latest developments in the data entry/imaging industry.

Under the banner of **"The Next Decade: Ten Years of Opportunities,"** the Program will cover a variety of critical issues facing today's data entry/imaging specialists. Through a series of informative workshops, clinics, panels, mini-forums and roundtables, the Conference helps buyers to assess their companies' technology requirements and prepares them to better evaluate and select products and services on display at the Exposition.

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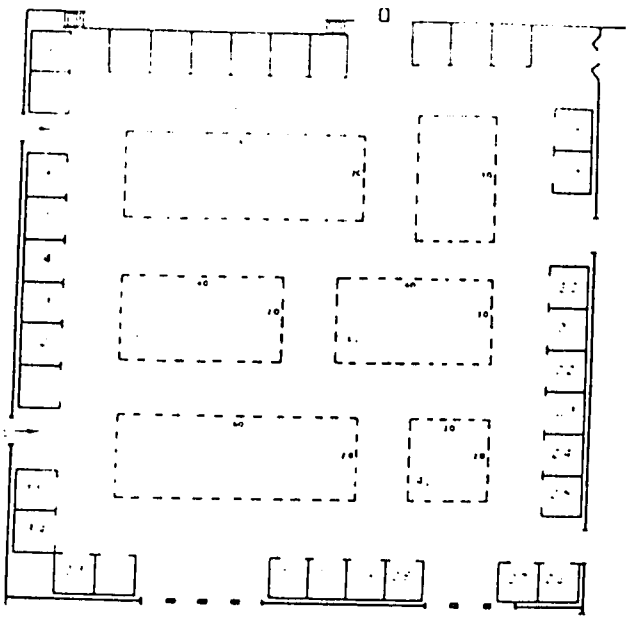

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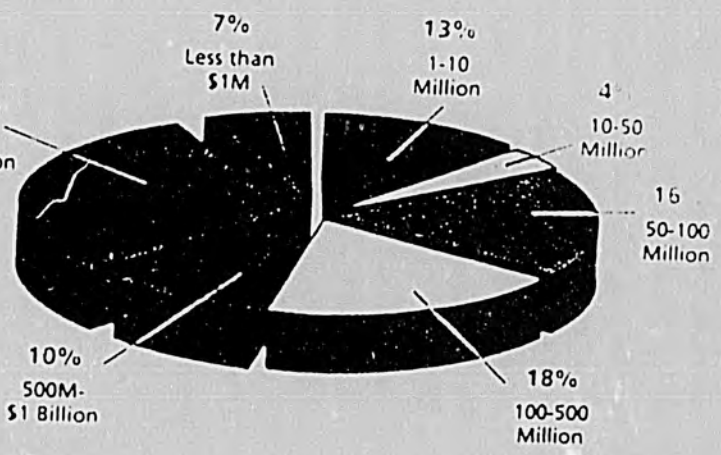

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Fourteenth Annual

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[illegible]aracter of Displays. Distribution of samples and printed matter of any kind, or any promotional material, is restricted [illegible]fines of the exhibit booth. No noise makers or anything not in keeping with the character and high standards of [illegible]sor may be distributed or utilized by any exhibitor in the exhibit area.

[illegible]or. Exhibitors must comply with union work rules where applicable. Union labor will be made available.

[illegible]ibit Logistics. Detailed data, in the form of an Exhibitor's Information Kit, will be mailed to each exhibitor in ample [illegible]dvance planning. The Kit will contain information regarding shipment, labor electrical services, rental items, exhibit [illegible]. Service order forms for all available services will be included and should be returned promptly.

[illegible]ndance. The Sponsor shall have sole control over attendance policies at all times.

[illegible]-Leasing. Exhibitors may not sublet their space, nor any part thereof, except upon written permission of the [illegible]

[illegible]rds. The Sponsor will employ reputable guards during the course of the Exposition. The duty of the guards [illegible] protect the general exhibit against fire or other catastrophes. Neither the Sponsor nor the owners or lessors of [illegible] premises will assume any responsibility for exhibitors' personal property. It is suggested that the exhibitor insure [illegible]rty against loss and theft.

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[illegible]cellation of Exhibit Space. Fifty percent of the total exhibit space cost is due upon assignment of space. In [illegible] of cancellation, this deposit is not refundable. On and after May 18, 1990 100% of the total exhibit space [illegible] upon assignment of space. In the event of cancellation, this booth space payment is not refundable.

[illegible] of God, Fires, Strikes, etc. In the event that any outside cause, such as war, fire, strike, or other emergency [illegible]e exhibit from being held, the exhibition management may retain such part of exhibitor's rental as shall be required [illegible]ense management for expenses incurred up to the time such contingency shall have occurred.

[illegible]pliance with Laws. Exhibitors must comply with all laws, rules, regulations and ordinances in force.

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Appendix C

To obtain the telephone number for U.S. companies listed by city and state, locate the state and city on the area code table below and dial the corresponding area code + 555 1212 and give the name of the company and city to the operator. In the case that the city is not listed in the table below, call any of the area codes corresponding to the company's state + 555 1212 and the operator can provide the correct area code to dial for further information.

place	area code
Alabama	
all locations	205
Alaska	
all locations	907
Arizona	
all locations	602
Arkansas	
all locations	501
Bahamas	
all locations	809
Bermuda	
all locations	809
California	
Anaheim	714
Bakersfield	805
Burbank	818
Huntington Beach	714
Long Beach	213
Los Angeles	213
Riverside	714
Sacramento	916
San Diego	619
San Fernando	818
San Francisco	415
San Jose	408
Santa Ana	714
Van Nuys	818
Canada	
London, Ont.	519
Montreal, Quebec	514
North Bay, Ont.	705
Ottawa, Ont.	613
Quebec, Quebec	418
Thunder Bay, Ont.	807
Toronto, Ont.	416
Trois Rivieres, Quebec	819
Val d' Or, Quebec	819
Colorado	
Aspen	303
Boulder	303
Colorado Springs	719
Denver	303
Pueblo	719
Vail	303
Connecticut	
all locations	203
Delaware	
all locations	302
District of Columbia	
Washington	202
Florida	
Boca Raton	407
Ft. Lauderdale	305
Hialeah	305
Hollywood	305
Jacksonville	904
Key West	305
Miami	305
St. Petersburg	813
Orlando	407
Tampa	813
Tallahassee	904
West Palm Beach	407
Georgia	
Atlanta	404
Columbus	404
Macon	912
Rome	404
Savannah	912
Waycross	912
Hawaii	
all locations	808
Idaho	
all locations	208
Illinois	
Alton	618
Aurora	312
Cairo	618
Casey	217
Chicago	312
Decatur	217
Elgin	312
Highland Park	312
La Grange	312
La Salle	815
Mt. Vernon	618
Peoria	309
Rockford	815
Springfield	217
Indiana	
Evansville	812
Fort Wayne	219
Gary	219
Hammond	219
Indianapolis	317
Kokomo	317
Michigan City	219
South Bend	219
Iowa	
Cedar Rapids	319
Council Bluffs	712
Davenport	319
Des Moines	515
Dubuque	319
Mason City	515
Sioux City	712
Kansas	
Dodge City	316
Kansas City	913
Ottawa	913
Topeka	913
Wichita	316
Kentucky	
Ashland	606
Dade Park	812
Frankfort	502
Lexington-Fayette	606
Louisville	502
Shelbyville	502
Winchester	606
Louisiana	
Baton Rouge	504
Lake Charles	318
New Orleans	504
Shreveport	318
Maine	
all locations	207
Maryland	
all locations	301
Massachusetts	
Boston	617
Framingham	508
New Bedford	617
Plymouth	508
Springfield	413
Worcester	617
Michigan	
Adrian	517
Ann Arbor	313
Battle Creek	616
Detroit	313
Escanaba	906
Flint	313
Grand Rapids	616
Jackson	517
Kalamazoo	616
Lansing	517
Livonia	313
Monroe	313
Saginaw	517
Sault Ste. Marie	906
Sterling Heights	313
Warren	313
Minnesota	
Albert Lea	507
Claremont	507
Duluth	218
Minneapolis	612
Rochester	507
St. Paul	612
Mississippi	
all locations	601
Missouri	
Independence	816
Jefferson City	314
Joplin	417
Kansas City	816
St. Joseph	816
St. Louis	314
Springfield	417
Montana	
all locations	406
Nebraska	
Abbott	308
Lincoln	402
North Platte	308
Omaha	402
Nevada	
all locations	702
New Hampshire	
all locations	603
New Jersey	
Atlantic City	609
Camden	609
Elizabeth	201
Hackensack	201
Jersey City	201
Newark	201
Paterson	201
Trenton	609
New Mexico	
all locations	505
New York	
Albany	518
Babylon	516
Binghamton	607
Buffalo	716
Elmira	607
Greenwich	518
Hempstead	516
Monroe	914
Mt. Vernon	914
New York City	
Bronx	212
Brooklyn	718
Kennedy Int'l Airport	718
La Guardia Airport	718
Manhattan	212
Queens	718
Staten Island	718
Niagara Falls	716
Peekskill	914
Poughkeepsie	914
Rochester	716
Schenectady	518
Stamford	607
Syracuse	315
Troy	518
Utica	315
White Plains	914
Yonkers	914
North Carolina	
Charlotte	704
Durham	919
Greensboro	919
Raleigh	919
Winston-Salem	919
North Dakota	
all locations	701
Ohio	
Akron	216
Alliance	216
Canton	216
Cincinnati	513
Cleveland	216
Columbus	614
Dayton	513
East Liverpool	216
East Palestine	216
Girard	216
Lodi	216
Lorain	216
Marietta	614
Massillon	216
Newark	614
Niles	216
Ravenna	216
Salem	216
Steubenville	614
Toledo	419
Youngstown	216
Zanesville	614
Oklahoma	
Muskogee	918
Oklahoma City	405
Tulsa	918
Oregon	
all locations	503
Pennsylvania	
Allentown	215
Altoona	814
Chester	215
Erie	814
Harrisburg	717
Hershey	717
Johnstown	814
Paoli	215
Philadelphia	215
Pittsburgh	412
Punxsutawney	814
Reading	215
Scranton	717
Swarthmore	215
Upper Darby	215
Valley Forge	215
West Chester	215
Wilkes-Barre	717
Puerto Rico	
all locations	809
Rhode Island	
all locations	401
South Carolina	
all locations	803
South Dakota	
all locations	605
Tennessee	
Chattanooga	615
Knoxville	615
Memphis	901
Nashville	615
Texas	
Amarillo	806
Arlington	817
Austin	512
Beaumont	409
Corpus Christi	512
Dallas	214
El Paso	915
Fort Worth	817
Garland	214
Houston	713
Irving	214
Lubbock	806
Pasadena	713
San Antonio	512
Waco	817
Utah	
all locations	801
Vermont	
all locations	802
Virgin Islands	
all locations	809
Virginia	
Alexandria	703
Chesapeake	804
Hampton	804
Newport News	804
Norfolk	804
Portsmouth	804
Richmond	804
Roanoke	703
Virginia Beach	804
Winchester	703
Washington	
Olympia	206
Pullman	509
Seattle	206
Spokane	509
Tacoma	206
Vancouver	206
Walla Walla	509
West Virginia	
all locations	304
Wisconsin	
Bay City	715
Beloit	608
Madison	608
Milwaukee	414
Wyoming	
all locations	307

32000

GUATEMALA: PRODUCTS & MARKETS FOR EXPORT GROWTH

FINAL REPORT

MARKET PROFILE: SLIP-TOP LITHOGRAPHED DECORATIVE CONTAINERS

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID/Guatemala*
and
The Non-Traditional Products Exporters Guild of Guatemala

Prepared by: *Ernst & Young*

Sponsored by: *Private Enterprise Development Support Project II*
Project Number: 940-2028.03
Prime Contractor: Ernst & Young

May 1990

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Most importantly, we thank the many members of the Guild and Guatemalan manufacturing community that enthusiastically received the information presented. The personnel of Ernst & Young enjoyed being part of this very important project and we are confident that Guatemalan companies will take advantage of the information and contacts provided to develop new exports and achieve a greater presence in U.S. markets.

MARKET PROFILE:

SLIP-TOP LITHOGRAPHED DECORATIVE CONTAINERS

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SLIP-TOP LITHOGRAPHED DECORATIVE CONTAINERS

I. The Product, its Production and Industrial Outlook

a. Description of Product

Slip-top decorative containers fall under the Standard Industrial Classification (SIC) code 3411. These containers, specifically, are not listed as a trade category so there are no reliable trade statistics.

Primarily used as decorative storage, these containers were principally designed as reproductions of antique containers, formerly imported from England. However, more and more of these containers are decorated with contemporary and seasonal lithography.

There are two major uses for these types of containers - as giftware (an end product in and of itself) and as packaging for specialty foods. As giftware, they are usually sold in department, gift and stationary stores. Consumers purchase the containers for a wide variety of uses from home-made cookies and candy, in which case the containers are an attractive and creative method of wrapping gifts; to storage for condiments such as flour, and sugar; to stationary supplies. Food producers use these containers as packaging for specialty foods such as biscuits and coffee.

Decorative containers are manufactured in a broad range of sizes and shapes. These include the following:

squares:	3" x 3" x 3"; 7 1/2" x 7 1/2" x 2 1/2"
rectangles:	6" x 7 1/2" x 1 1/2"; 3 1/4" x 4 1/4" x 3/4"; 3 3/4/" x 8 3/4" x 3"; 4" x 9" x 1 1/2"
rounds:	8 1/4 x 4 3/4"; 4 1/4 x 4 1/4"; 3 1/4 x 1"
ovals:	2" x 3" x 2"; 8" x 5" x 3"
octagons:	4 1/4" x 4 1/4" x 4 1/4"
heart-shaped:	3" x 3 1/2" x 1"; 9" x 9"x 1 1/2"
egg-shaped:	3 1/2" x 5" x 3"
kidney-shaped:	1 3/4" x 3" x 4 1/4"
car-shaped:	4 1/2" x 2 1/2" x 1 1/2", 3 1/4" x 7 3/4" x 1 1/2"

A single design or lithographic theme may be used on an assortment of containers sold as part of a set For example, a lithographed pattern of Christmas trees would not only be on square or round containers, but also be available in both and/or more shapes, numerous sizes of these shapes and sometimes with other types of product such as waste paper baskets or trays. Giftware catalogs used by distributors and retailers generally offer more than one shape of containers in a given pattern Conversely, in the

food industry, the shape and lithography of the containers are specified by the food manufacturer.

b. Production Considerations

A line of giftware products is an assortment of related products. These lithographed containers would be related by design and can include trays, coffee cups, bags, waste baskets, pencil holders, etc. Salespersons presenting a line generally prefer to include a wide assortment of product variations, but of the same design. Due to the low value of the containers, salespeople need a diverse selection in order to write a large enough order to make their time and efforts, as well as subsequent commission, worthwhile. A gift store or department store will purchase US$500 minimum, wholesale, of a wide selection of containers, and related items.

c. Costs

Two major cost factors for this product are the cost of set-up for a specific graphic design run, and the cost of preparing printing plates. An estimate by one manufacturer of the set up charges for a 4 1/2" diameter x 6" high can are:

- $225 per color (i.e., 4 colors to make a full color can = $900) to prepare printing plates for each size can
- $400-$700 per design for color separation to prepare these printing plates.

Hong Kong's total set-up charges are in the $200-$300 range for a comparable can, and U.K. and European costs are approximately 70% of those of U.S. producers.

Maintaining low set-up charges will be important in attracting smaller and mid-sized specialty food manufacturers because runs tend to be short. Set-up charges are amortized over the first run in calculating initial cost. In the food sector, it is critical that packaging be available to be re-ordered without changes for periods of several years if the product is successful.

Typical minimum quantity requirements for producers in the following markets a "coffee can" size are:

U.S.:	8,000 - 10,000 pieces
Hong Kong:	10,000 pieces
England/Europe:	4,000 - 5,000 pieces

A significant reduction in initial run requirements would be a significant selling advantage to both gift and specialty food buyers.

The two types of containers address two different design criteria. Giftware distributors look to the manufacturer to create designs to be lithographed, as well as to decide which configurations will be produced. However, specialty food manufacturers will provide the container manufacturer with the desired design, such as the food brand's logo, and other specifications. Therefore, design "translation" is important. While graphics will be created by the purchaser (or a designer retained by the purchaser for specialty food containers), there is apparently a problem in translating such graphic to production plates. Either a "tinware production knowledgeable" design person would have to be located at the purchaser's offices or communications regarding design would have to be provided by the Guatemalan producer with a sampling procedure that would allow rapid approval. Samples would have to be shipped via air.

If Guatemala has capacity in roller dies, it could create an entirely new style in lithographed decorative containers, by adding an embossed element to the design. No such product which incorporates both lithography and embossing is known to currently exist in the U.S. market and Guatemala's production of this type of product would place the producer in a very unique and possibly lucrative position. Guatemala could, for instance, create roller dies with an embossing of a store's logo to suit the different sized containers of the store's particular specialty foods.

A major U.S. distributor of giftware items has specified that if he had the design and line of products he wanted, he would need to sell at least US$500,000 per year for this to be a feasible venture for him. This request would require that Guatemala be prepared for the production of several different shapes and sizes of containers and other items, such as trays and waste-paper cans. The smaller distributors would require smaller quantities.

Lids should fit with precision or die-cut gaskets should be available for near air-tight fit of covers.

d. Industrial Outlook

England has the best lithography capabilities. Guatemala may not be able to compete unless the production prices are lower while quality standards are maintained.

The U.S. producers make large containers which hold 1 or more gallons as well as smaller slip-top containers. Formerly, the main producer of lithographed decorative containers was England, but Hong Kong has grown rapidly. The U.S. does not seem to be attempting to increase production to capture more than its current share of the market.

Most of the giftware is sold on the mid to lower price/quality levels of the market, whereas food packaging falls within the mid to upper ends of the market. Food containers are more expensive to produce because of

requirements that the metal used and the method of soldering be free of lead and other toxins. The design trend for both types of containers has been the Victorian style, however, this is being balanced by the increase of more contemporary designs, as mentioned above.

II. Market Information and Considerations

a. Market Demand and Main Market Segments

There is a demand in the U.S. for high quality, unique and reasonably priced lithographed containers. Buyers for food packaging are most concerned with quality rather than price and style, whereas buyers of giftware are more concerned with the graphic applications and style content. Guatemala can prove to be a promising source for both types of purchasers through the provision of quality product in shorter runs at competitive price. The demand for giftware has been low because of the high run requirements of current manufacturers which has discouraged U.S. importers/distributors from purchasing lines.

The current downturn of the American economy could also prove beneficial to this product line. With Americans earning less than before, many are turning to homemade gifts as alternatives to store-bought gifts. Homemade gifts, especially Christmas cookies and other sweets, are becoming more common and slip-top lithographed containers provide an air-tight (thereby practical), attractive method of gift-packaging. An added advantage is that the container can be used after its original contents are consumed.

There are many U.S. buyers for decorative containers. Some buyers and distributors would assist in developing a product line and subsequently market and distribute it. It is important for Guatemala to produce a line to demonstrate its capabilities with the initial market target being giftware.

In this product area, it is crucial that the manufacturer concentrate on developing a unique quality product. A successful introduction would subsequently attract other distributors and specialty food companies.

The largest market is the specialty food packaging industry. This is the major opportunity for lithographed containers. It is doubtful that major food companies would be prospects. Specialty foods, in this regard, refer to those which a major department store or gourmet store carries packaged under the store's name.

b. Major Factors in Buying Decision

A major factor in the buying decision, given a quality product, is the availability of short runs at reasonable costs. Most retailers will purchase at least 2 full lines or assortments for their stores as market testers.

Short lead times have been mentioned by some distributors as very important in their decisions to purchase containers. Some distributors have had to contend with lead times as long as 3 years. Therefore, Guatemala should endeavor to shorten lead times as much as possible.

c. Pricing Considerations

Pricing must be competitive or close to competitive if other advantages, such as embossing, are offered. However, it must be noted that the introduction of an unique product will tend to minimize direct cost comparison.

Landed cost of British and European product tends to be about the same as prices quoted by U.S. sources. Hong Kong prices are reported about 40-50% less, but refer to a generally lighter gauge can.

One American manufacturer estimated that given printing plates paid for by the purchaser and ordering in required minimum quantities, the purchaser would pay 30-40% less than prices quoted in their catalog for "stock" items.

The following are typical prices from U.S. manufacturers to distributors for stock cans with 4 color decoration:

- 5" diameter x 8" high cylinder with lid $1.88
- 5" x 3 7/8" cylinder with lid $1.56
- 6" x 7 1/4" cylinder with lid $1.65

A series of three cans (5" x 5", 8" x 8" and 10" x 8") can cost a buyer $6.00 from a distributor.

III. Distribution Channels

a. How the Product Reaches the End User

The manufacturer will have to prepare the necessary collateral material, i.e. photos, price sheets, etc. to effectively promote the product and provide as much information about available dimensions and prices for the importer/distributor. In addition, the manufacturer will need to prepare and send samples of the final product for the importer/distributor.

A importer/distributor would first purchase the containers from the Guatemalan manufacturer. He would then have a showing of its new product lines in which the containers would be included. Sales representatives, using catalogs, will then present and sell the product to the retailer.

Sales agents (manufacturers' representatives) in these trades now tend to earn commissions in the 15%-20% range. Those offering regional showrooms may add up to 5% additional Proven, high-volume lines may negotiate a 10% commission.

An importer/distributor will tend to mark up the landed cost of a product at least 100%. When a high-volume line (probably US$10 million) is sold, competition may force the importer/distributor to work on smaller profit margins.

The retailer will mark-up at least 100% additional, with large, direct import purchases exceeding that mark-up. Department stores and mail order look for at least 110% from their wholesale cost to retail.

There are several important trade shows related to slip-top lithographed decorative containers:

- New York Gift Shows - These are the most important. There are two/year in New York City and are operated by George F. Little Management of New York.

- Secondary Giftware Shows - These are in Dallas, Atlanta and Los Angeles.

- National Housewares Shows - The primary show is in Chicago and the other is in Atlanta.

b. General Transportation Factors/Considerations

A significant consideration in transporting the product is that because it is low value/high bulk, they should be designed to ship economically, i.e. stack or nest, to reduce to minimum volume.

There are several different way of achieving maximum shipping quantity. For round containers, the most common way is to use a tapered side which would allow the container's to nest. Rounds and other shapes can often be made in different sizes such that a larger size can house several differently sized containers, each being placed inside another.

c. Trade Terms and Import Duties

A distributor's products are usually sold on terms of 30 days, net or 2% 10 days, net 30 days. However, accounts receivable averages about 60 days with department stores being even slower payers. A distributor or wholesaler will generally guarantee satisfaction with quality.

Guatemala, although a beneficiary country of both the Generalized System of Preferences (GSP) and the Caribbean Basin Economic Recovery Act (CBI), does not have an advantage over non-GSP or non-CBI countries

because decorative/specialty containers from any country enter the U.S. duty free. U.S. customs will require a properly completed Certificate of Origin-Form A at the point of entry. The measuring unit for reporting on the export documentation forms is the number of units in the shipment. The Harmonized Tariff Schedule Number for this product category is 7310.20.00.00.7.

d. Characteristics and Profiles of Possible Marketing Partners

Alfred E. Knobler & Co., Inc.
225 Fifth Ave.
Suite 401
New York, NY 10010

Knobler is one of the United States' largest importers/distributors of giftware. They have over 100 sales representatives and 14 showrooms throughout the United States. They strongly believe that lithographed decorative containers, like anything else, of quality, that are unique and appropriately priced has market potential.

Please see Appendix A of this profile for more information about Knobler, Inc. Their Chairman and President have been invited to Guatemala to meet potential suppliers.

Nashco Products, Inc.
1015 N. Main Ave.
Scranton, PA 18508
(717) 347-4210

They are definitely interested in seeing a catalog and price list from the Guatemalan manufacturers. They presently do not import any of their metal-wares.

Crawford Container Co.
(216) 593-5221

Crawford manufactures cans and specialty metal containers for industrial, consumer and military packaging. If they take on an outside manufacturer, they will distribute. They are not interested in round cans. They would be most interested in sourcing from Guatemala if the Guatemalan manufacturer has the tooling for unique shapes which would not be cost effective for Crawford to duplicate. Crawford currently has tooling for 70-80 cans.

JusTins, Ltd.
(215) 635-7170

JusTins is interested in unique, lithographed decorative tin cannisters and distributes throughout the U.S. The information they would like is the following:

- lead times to approve, manufacture and deliver at various prices to fit in 20 to 40 containers
- plates and proofing charges
- samples
- the length of time it would take if JusTins were to make a new shape or size.

Keller Charles
Manufacturers and Importers of Fine Giftware
2413-27 Federal St.
Philadelphia, PA 19146
(215) 732-2614

IV. Outline of Recommended Export Strategy

a Key Factors that Producers Must Address as a Next Step

The production of a "house line" for sale to the gift/stationary trade would be a desirable first step for the Guatemalan producer for the following reasons:

- It would serve to show capability of producing diverse and perhaps, unusual items;
- it would demonstrate quality level;
- a line would be the means of getting publicity exposure to the trade; and
- it would provide an opportunity to show advantageous prices and terms, if any.

Such a line development should not be undertaken unless there is a firm arrangement with a major U.S. importing distributor in advance of investment. Ideally, such an importing distributor would cover, or at least participate in, start-up tooling costs, as well as providing designs or design guidance.

Some innovative items, in addition to the usual containers, such as trays, waste paper baskets, etc. should be explored with the factory and a designer. Items of wall decor (small shelves, spice racks, glass cannister holders, large tin cake boxes) could add interest to a short line and be less price competitive.

The above, if accomplished, should be sold exclusively to the trading partner for a period of at least one year. Given a record of success in the marketplace and production/delivery performance, a slightly modified line would be possible with other major importing distributors.

All sales to retailers would be handled by the importer, as would trade shows.

b. Principal Considerations

Since the major market will be specialty food packaging to the gourmet stores, and possible elements of the gift trade, the second, and more important attempt, would be to contact likely prospects who import and resell food products. it is doubtful that major food companies would be prospects. Candy, cookies, coffee and tea specialty houses would be the most likely markets. They will be attracted by lower initial production requirements which current manufacturers are unwilling and/or unable to satisfy. This market will require a quality product because they sell to an upscale market. Other possible markets would be multi-store chains, such as Bloomingdale's, Macy's, and Neiman-Marcus which all have their own gourmet food lines packaged with their respective logos.

Delivery should be reliable. Off-shore sources are notably poor in this respect. Quoted delivery dates are reportedly seldom met. Guatemala should endeavor to develop a reputation for promptness, which is of great importance in the U.S.

An additional approach to entering the export market could be through serving other Guatemalan sectors, such as agro-industry, by supplying the packaging containers.

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Appendix A

Slip-top Lithographed Decorative Containers
Market Experts/Buyers

The Founder and Chief Executive Officer/Chairman of Alfred E. Knobler & Co., Inc., Alfred E. Knobler and Alvin Reiner, the President of the company have been invited to Guatemala to serve on the Ernst & Young team as the giftware market experts. In Guatemala, Mssrs. Knobler and Reiner will participate in the market profile presentation and meet with potential suppliers to examine their capabilities and discuss opportunities for developing business relationships with Alfred E. Knobler & Co. Their visit will provide Guatemalan companies with an opportunity to their views, as experts, of the giftware market, in general, and more specifically, the potential for Guatemalan companies to act as business partners for and suppliers to the U.S. market.

Established in 1940, Alfred E. Knobler & Co. has had 50 years of importing from the Far East, Southeast Asia and Europe. Their imports include giftware, ceramics, housewares, picture frames, glassware, paper goods and children's items. The company has become one the leading giftware distributors, selling to 17,000 active accounts throughout the U.S. with 14 showrooms in major markets and 105 salespeople.

Appendix B

To obtain the telephone number for U.S. companies listed by city and state, locate the state and city on the area code table below and dial the corresponding area code + 555 1212 and give the name of the company and city to the operator. In the case that the city is not listed in the table below, call any of the area codes corresponding to the company's state + 555 1212 and the operator can provide the correct area code to dial for further information.

place	area code
Alabama	
all locations	205
Alaska	
all locations	907
Arizona	
all locations	602
Arkansas	
all locations	501
Bahamas	
all locations	809
Bermuda	
all locations	809
California	
Anaheim	714
Bakersfield	805
Burbank	818
Huntington Beach	714
Long Beach	213
Los Angeles	213
Riverside	714
Sacramento	916
San Diego	619
San Fernando	818
San Francisco	415
San Jose	408
Santa Ana	714
Van Nuys	818
Canada	
London, Ont.	519
Montreal, Quebec	514
North Bay, Ont.	705
Ottawa, Ont.	613
Quebec, Quebec	418
Thunder Bay, Ont.	807
Toronto, Ont.	416
Trois Rivieres, Quebec	819
Val d' Or, Quebec	819
Colorado	
Aspen	303
Boulder	303
Colorado Springs	719
Denver	303
Pueblo	719
Vail	303
Connecticut	
all locations	203
Delaware	
all locations	302
District of Columbia	
Washington	202
Florida	
Boca Raton	407
Ft. Lauderdale	305
Hialeah	305
Hollywood	305
Jacksonville	904
Key West	305
Miami	305
St. Petersburg	813
Orlando	407
Tampa	813
Tallahassee	904
West Palm Beach	407
Georgia	
Atlanta	404
Columbus	404
Macon	912
Rome	404
Savannah	912
Waycross	912
Hawaii	
all locations	808
Idaho	
all locations	208
Illinois	
Alton	618
Aurora	312
Cairo	618
Casey	217
Chicago	312
Decatur	217
Elgin	312
Highland Park	312
La Grange	312
La Salle	815
Mt. Vernon	618
Peoria	309
Rockford	815
Springfield	217
Indiana	
Evansville	812
Fort Wayne	219
Gary	219
Hammond	219
Indianapolis	317
Kokomo	317
Michigan City	219
South Bend	219
Iowa	
Cedar Rapids	319
Council Bluffs	712
Davenport	319
Des Moines	515
Dubuque	319
Mason City	515
Sioux City	712
Kansas	
Dodge City	316
Kansas City	913
Ottawa	913
Topeka	913
Wichita	316
Kentucky	
Ashland	606
Dade Park	812
Frankfort	502
Lexington-Fayette	606
Louisville	502
Shelbyville	502
Winchester	606
Louisiana	
Baton Rouge	504
Lake Charles	318
New Orleans	504
Shreveport	318
Maine	
all locations	207
Maryland	
all locations	301
Massachusetts	
Boston	617
Framingham	508
New Bedford	617
Plymouth	508
Springfield	413
Worcester	617
Michigan	
Adrian	517
Ann Arbor	313
Battle Creek	616
Detroit	313
Escanaba	906
Flint	313
Grand Rapids	616
Jackson	517
Kalamazoo	616
Lansing	517
Livonia	313
Monroe	313
Saginaw	517
Sault Ste. Marie	906
Sterling Heights	313
Warren	313
Minnesota	
Albert Lea	507
Claremont	507
Duluth	218
Minneapolis	612
Rochester	507
St. Paul	612
Mississippi	
all locations	601
Missouri	
Independence	816
Jefferson City	314
Joplin	417
Kansas City	816
St. Joseph	816
St. Louis	314
Springfield	417
Montana	
all locations	406
Nebraska	
Abbott	308
Lincoln	402
North Platte	308
Omaha	402
Nevada	
all locations	702
New Hampshire	
all locations	603
New Jersey	
Atlantic City	609
Camden	609
Elizabeth	201
Hackensack	201
Jersey City	201
Newark	201
Paterson	201
Trenton	609
New Mexico	
all locations	505
New York	
Albany	518
Babylon	516
Binghamton	607
Buffalo	716
Elmira	607
Greenwich	518
Hempstead	516
Monroe	914
Mt. Vernon	914
New York City	
Bronx	212
Brooklyn	718
Kennedy Int'l Airport	718
La Guardia Airport	718
Manhattan	212
Queens	718
Staten Island	718
Niagara Falls	716
Peekskill	914
Poughkeepsie	914
Rochester	716
Schenectady	518
Stamford	607
Syracuse	315
Troy	518
Utica	315
White Plains	914
Yonkers	914
North Carolina	
Charlotte	704
Durham	919
Greensboro	919
Raleigh	919
Winston-Salem	919
North Dakota	
all locations	701
Ohio	
Akron	216
Alliance	216
Canton	216
Cincinnati	513
Cleveland	216
Columbus	614
Dayton	513
East Liverpool	216
East Palestine	216
Girard	216
Lodi	216
Lorain	216
Marietta	614
Massillon	216
Newark	614
Niles	216
Ravenna	216
Salem	216
Steubenville	614
Toledo	419
Youngstown	216
Zanesville	614
Oklahoma	
Muskogee	918
Oklahoma City	405
Tulsa	918
Oregon	
all locations	503
Pennsylvania	
Allentown	215
Altoona	814
Chester	215
Erie	814
Harrisburg	717
Hershey	717
Johnstown	814
Paoli	215
Philadelphia	215
Pittsburgh	412
Punxsutawney	814
Reading	215
Scranton	717
Swarthmore	215
Upper Darby	215
Valley Forge	215
West Chester	215
Wilkes-Barre	717
Puerto Rico	
all locations	809
Rhode Island	
all locations	401
South Carolina	
all locations	803
South Dakota	
all locations	605
Tennessee	
Chattanooga	615
Knoxville	615
Memphis	901
Nashville	615
Texas	
Amarillo	806
Arlington	817
Austin	512
Beaumont	409
Corpus Christi	512
Dallas	214
El Paso	915
Fort Worth	817
Garland	214
Houston	713
Irving	214
Lubbock	806
Pasadena	713
San Antonio	512
Waco	817
Utah	
all locations	801
Vermont	
all locations	802
Virgin Islands	
all locations	809
Virginia	
Alexandria	703
Chesapeake	804
Hampton	804
Newport News	804
Norfolk	804
Portsmouth	804
Richmond	804
Roanoke	703
Virginia Beach	804
Winchester	703
Washington	
Olympia	206
Pullman	509
Seattle	206
Spokane	509
Tacoma	206
Vancouver	206
Walla Walla	509
West Virginia	
all locations	304
Wisconsin	
Bay City	715
Beloit	608
Madison	608
Milwaukee	414
Wyoming	
all locations	307

32688

GUATEMALA: PRODUCTS & MARKETS FOR EXPORT GROWTH

FINAL REPORT

MARKET PROFILE: UTILITY SHEDS

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID / Guatemala*
and
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MARKET PROFILE:

UTILITY SHEDS

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UTILITY SHEDS

I. The Product, its Production and Industrial Outlook

a. Product Description

Utility sheds, also known as garden, storage and tool sheds, are categorized in the U.S. Standardized Industrial Classification Code (SIC) as no. 3448, Prefabricated Metal Buildings. The SIC product code 34482 16 includes small utility buildings, including tool sheds, cabanas, storage houses, etc. made out of steel. SIC product code 34482 26 includes the same products made out of aluminum. Some utility sheds are made of wood, however, these will not be addressed in this profile. The great majority of utility sheds are manufactured in the U.S.

These structures are used for storing excess household items, usually those for lawn care and pool-side care, as well as sports equipment and any other items that cannot be accommodated in home storage. However, most utility sheds are not generally secure enough to store expensive equipment.

Manufactured out of steel frame parts, utility sheds are sold knock-down for customer assembly. Included with the purchase of the sheds are detailed assembly instructions as well as the assembly parts necessary, such as nuts and screws, but not equipment. The only piece of equipment the consumer usually needs is a screwdriver, preferably electric with a magnetic bit, as well as some assistance during assembly. Sheds are made in several sizes from 8' x 8' to 12 ' x 31', the larger ones can usually house riding lawn mowers or other large pieces of home maintenance equipment. One type of utility shed is made out of heavy duty steel, and comes in two sizes: 10' x 12' x 6'3" (height) weighing 851 lbs or 10' x 12' x 8' (height) weighing 1141 lbs.

At this end of this profile is a description of a related product that Guatemala may consider manufacturing, storage fences.

b. Production Considerations

Utility shed production primarily uses machinery. The basic equipment and facility requirements are cutting, stamping, rolling and painting. Utility sheds must be sturdy and need to be manufactured accordingly. Fairly rough use, as well as the ability to withstand extremely strong winds and the weight of snow on the roof are factors that need to be considered in the design and manufacturing of utility sheds.

These steel buildings come with either hinged or sliding doors. Some of the hinged doors open to 68 3/4" width. Sliding doors open to 55 1/2" for large pieces of equipment. The roofs are gabled, with peak heights up to 7' or higher through the use of gambrel roofs in which there can be up to 8' of clearance throughout most of the shed.

Utility sheds need to be finished, i.e. galvanized and painted, some have an additional protective vinyl coating. Part of the finishing includes some form of rust protection, when vinyl coating is not used, because of the extremities of weather in the U.S.

c. Industrial Outlook

The cost of homes has increased dramatically in the past few years. Therefore, square footage costs have risen as well, and utility sheds provide an economical advantage to having 1) new houses built with additional storage space and 2) building additional storage space to existing houses.

Expenditures for home improvement and repair are expected to remain strong throughout the 1990s as the housing stock ages. During the 1988-1993 period, new construction is expected to remain near the current levels while remodeling and repair construction increase steadily. (see below table)

Construction Expenditures by Type of Structure 1988-1993
(in billions of 1982 dollars)

Item	1987	1988	1989
Private Residential Building Construction	171.3	167.8	165.1
Residential maintenance and repair	33.4	34.7	35.7

Source: U.S. Industrial Outlook 1989

These figures illustrate a decrease in construction expenditures and a simultaneous increase in residential maintenance and repair. Utility sheds will be needed to accommodate the increase in equipment purchases for home renovations, and demand for them will therefore increase.

In 1988, constant-dollar expenditure by owners for up-keep and improvement of residential properties increased 4 percent. Upkeep and improvement includes expenditures on maintenance and repairs as well as new construction improvements, but does not include the value of do-it-yourself labor.

Expenditures in all categories of home improvement should grow steadily in the long term because of the increasing size and age of the existing housing stock. Stores oriented toward the do-it-yourself market have experience sizable annual sales gains. Increased demand for energy-efficient structures and building modifications to accommodate high-technology innovations will also buoy the renovation market. Landlords must maintain rental properties to attract new renters. Finally, homeowners wishing to increase investment value find that some renovations (such as bathrooms and fireplaces) can offer resale value gains above the cost of the improvement. Utility sheds will become increasingly necessary to store the tools and materials that such increases in do-it-yourself home renovation and maintenance require.

II. Market Information and Considerations

a. Market Demand and Main Market Segments

Data from the National Gardening Association (NGA) is gathered through statistical surveys sent to households in the U.S. The surveys are considered valid only if the reporting household performs at least 1 of a possible 15 gardening activities. If it does not, it is assumed that the household is an apartment. NGA surveys have found that the largest markets for tool sheds are in the mid-Atlantic and Pacific states.

In addition, the NGA has found that of the total American households, 70 million perform some type of gardening activity. Of these 70 million, about 2.1 million, or or roughly 3% , purchased some type of tool shed in both 1988 and 1989. (This data has an error margin of +/- 3%, which means that the number of tool sheds purchased could range from 0 to 4.2 million, but 98% of the time will be around 2.1 million.)

Of the total number of tool sheds purchase, the purchases were distributed by household income levels in the following way:

Income level ($000) (per household)	Tool Sheds Purchased (%) (by value)
20-30	35%
30-40	12
40-50	18
>50	35

This data suggests that tools sheds are purchased more by the lower and higher, rather than middle, income houses. Therefore, the primary market segments are those in the lower and higher income brackets. The NGA thought that many of the sheds purchased at the higher end were a

very high quality product and probably made of wood. This might push the percentage towards the higher end, as each unit is more expensive.

Tools sheds are affected by purchases of lawn and garden equipment. Demand for lawn and garden equipment, which is closely tied to changes in new housing and personal income, is expected to grow by about 1.6 percent annually (constant dollars) in the 1989-1993 period.

b. Major Factors in Buying Decision

The two factors taken under consideration by consumers are size and the type of finish. The most expensive sheds are the largest with a vinyl finish. In addition to different length and width dimensions, roof heights also differ. The door level is usually 5 feet high and the roof levels can range from just a few inches higher to 3 - 4 feet higher. Size and the type of finish are the only factors in the buying decision.

c. Pricing Considerations

Pricing differences reflect size and type of finish. One example of pricing is an 8' x 8' shed retailing for US$220.00. Another is a 10' x 13' shed, made out of 100% galvanized steel with a vinyl finish for $629.00. Other sizes and their respective retail prices are:

12' x 10'	US$749
10' x 14'	US$530
10' x 9'	US$430
10' x 8'	US$234
8' x 10'	US$309
8' x 6'	US$179

The decorative component does not differ significantly among the different sheds and therefore does not enter into pricing considerations.

III. Distribution Channels

a. How the Product Reaches the End User and Key Players in the Industry

In the U.S., one manufacturer, Arrow Industries, is believed to have about 70 percent of the tool shed market and earns about $70 million to $75 million per year (making wholesale revenues for the total metal utility shed market approximately $100 million per year). This manufacturer, a very strong force in the market, clearly has a very strong dealer base. Other major manufacturers are Anchor and Chief Industries.

In order to penetrate an almost closed market, Guatemalan utility shed manufacturers should establish a relationship with a marketing representative with extensive experience in the lawn and garden industry. This marketing representative will have contacts with the appropriate buyers who carry tool sheds in their product lines. In addition, such a representative could sell utility sheds to retailers which presently do not carry them.

The principal distribution channels for this sector are:

- The lawn and garden distributors. These companies sell to major lawn and garden supply stores, for example, John Deere.

- Hardware buyer groups. These groups buy for hardware stores such as Ace and True Value.

- Regional chain stores/home improvement centers. These includes Hechingers, Sears, Grossmans, Channel, etc.

- Mass Merchants. This includes stores such as Walmart, Loews, and other all-purpose retailers.

- Warehouse stores. These are warehouse-type stores, occasionally requiring memberships where goods are purchased at a discount. These include Home Depot, Price Club, and Samm's Wholesale Club.

b. Characteristics and Profiles of Possible Joint Venture, Investment, and/or Marketing Partners/Outlets

Sears Roebuck and Co.
Chicago, IL

Sears has retail stores throughout the U.S. which carries a full line of utility sheds. Sears is an ideal distributor of utility sheds since many do-it-yourself homeowners know that Sears carries everything for home improvement from nails to paint to gardening equipment, including lawn mowers and snow blowers.

Attached as Appendix C is "Procedures for Submitting Unsolicited Proposals to Sears, Roebuck and Co.".

Austram, Inc.
Hillsborough Business Center
Hillsborough, NC 27278
(919) 732-0970

Austram's main product line is decorative accessories for the home and garden. Their main product line is planters and their accessories. The President of Austram, Mr. David Fernandez, has had extensive experience in marketing of lawn and garden equipment except for chemicals, tools, plant material and other perishables.

Possible sales outlets may include:

Angels Home Centers
Brea, CA

Beeson Hardware Co., Inc.
High Point, NC

Brayer Lumber and Supply Co.
Detroit, MI

Economy Lumber and Hardware Co., Inc.
Denver, CO

Grace Home Centers West
Pasadena, CA

Homecrafters Warehouse, Inc.
Birmingham, AL

Al Meier's Building Centers, Inc.
Tacoma, WA

National Hardgoods Distributors, Inc.
Stoughton, MA

Pay N Pak Stores, Inc.
Kent, WA

Payless Cashways, Inc.
Kansas City, MO

True Value Home Centers
Virginia Beach, VA

Wickes Companies, Inc.
Santa Monica, CA

c. Import Duties

Guatemala is a beneficiary country of both the Generalized System of Preferences (GSP) and the Caribbean Basin Economic Recovery Act (CBI). As a result, utility sheds are imported duty free. This provides Guatemala

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with an advantage over non-GSP and non-CBI beneficiary countries, which must pay an average duty of 5.7% on the landed value. Guatemala would have to ensure that it was meeting the conditions of the CBI provisions, in particular, that the direct processing costs of the product total at least 35% of the shed's custom value. This is especially critical since Guatemala would import the raw materials for utility sheds. For specific information regarding this provision and similar conditions for importing into the United States, see Appendix A of the Project Overview Document.

U.S. Customs will require a properly completed Certificate of Origin-Form-A at the point of entry. the harmonized Tariff Schedule Number of the product category is 9406.00.80.30.8. The measuring unit for reporting on the export documentation forms is the number of units in the shipment.

IV. Outline of Recommended Export Strategy

a. Key Factors that Producers Must Address as a Next Step

The Guatemalan manufacturer should establish a relationship with a U.S. distributor with experience in marketing lawn and garden products. This U.S. business should provide illustrations, specifications, prices and packaging requirements. Guatemalan designers, perhaps architects, should be used and would work in close cooperation with U.S. marketing people. The sheds should be priced and its C.I.F. price computed. The manufacturer would provide the U.S. business with all technical information on production and additional material samples that suggest possible variants. When the manufacturer can provide some samples, the U.S. business should then begin to contact retailers and sell some of this initial merchandise.

When the U.S. business has completed selling the initial merchandise to retailers, it should monitor and report to the manufacturer on the initial over-the-counter performance of the product. Any negatives could then be overcome in product design or price changes, if possible. Given a successful introduction, the U.S. business would then move to expand sales from the manufacturer with different versions of the product, if necessary, until the desired sales level is reached. The U.S. business would also work to develop trade publicity on the sheds.

The manufacturer should be contractually obligated to pay a small percentage of ongoing sales developed through the U.S. business to support further development and marketing efforts.

The advantage that Guatemala will be able to provide over U.S. manufacturers should be cost. Guatemala should endeavor to manufacture sheds of quality comparable to those presently manufactured in the U.S. for lower prices and/or higher quality sheds at competitive prices.

APPENDIX A

STORAGE FENCES

A product related to utility sheds that Guatemala could produce is a storage fence. This is a well-designed, up-scale, artistically decorated unit. It performs not only storage functions, but also adds an element of privacy because of its dimensions, which is more rectangular than square. Its shortest length could be 10' with a depth of 4' and height of 8'. This would be marketed to upper income bracket households which would be more willing to pay for the additional artisanship this product would offer.

Production Considerations

Similar to the production of utility sheds, the storage fences have two additional requirements, that: 1) they be custom produced 2) they be produced as knock down to the distributor who will assemble it for the end user.

Market Demand and Main Market Segments

Storage fences could address the higher income households who, in addition to gardening activities, may also have swimming pools and/or tennis courts on their properties. These storage fences, if well-designed and uniquely decorated, could provide a colorful and attractive alternative to the standard utility shed for these types of households' storage needs.

As storage fences are an up-scale version of utility sheds, a potential manufacturer should follow the above steps recommended for utility sheds to develop an export strategy.

However, there are significant differences between the two items. First, because storage fences are unusual and more costly than utility sheds, they would be sold by retailers of innovative and unusual lawn and garden products, such as retailers of greenhouses, cabanas and gazebos. These retailers would possess a clientele base of people attracted to unusual and more expensive lawn an garden products.

In addition, retailers of storage fences will need to be willing to assemble them for the end-user. Customers of upscale products prefer to pay for the cost of assembly by the retailer rather than self-assembly. One company had designed and sold an 8' x 12' utility shed that was similar to a small house. Some customers used it as one, by installing plumbing and electricity. This manufacturer stated that the price was high enough for the majority of those who could afford it to expect installation by the company. The company did not, however, provide this, which he believes was the reason for the failure of the item.

Second, the production of storage fences will require more creativity than the standard utility shed. A unique and sturdy structural design would be necessary. However, the greatest added value should come from the design element on the surface of the storage fence. The manufacturer should produce several prototypes with different designs to provide examples of its artistic capabilities. The marketing representative should provide suggestions for the types of designs for examples. Since, storage fences will be produced on an as requested basis, the manufacturer should endeavor to provide as many choices for the end-user, as possible.

Price should be of secondary consideration. These storage fences should be designed for those in the upper income brackets who are willing and able to pay for a high-quality, well-designed, unique and unusual product.

APPENDIX B

UTILITY SHEDS

Market Experts/Buyers

David Fernandez, President of Austram, Inc., and Mr. E.Z. Johnson, President of Keller Industries' Logistics Division, have been invited to Guatemala to join the Ernst & Young team as Lawn and Garden market experts. In Guatemala, Mssrs. Fernandez and Johnson will participate in the market profile presentation and meet with potential suppliers to examine their capabilities and discuss opportunities for developing business relationships with Austram and Keller. Their visits will provide Guatemalan businessmen with an opportunity to learn about different segments of the U.S. lawn and garden market, and about their potential to conduct business with these companies.

Austram, established in 1983 in Hillsborough, North Carolina, is a manufacturer/importer of lawn and garden accessories. Their main product line consists of lawn and garden accessories, primarily planters. Austram also has experience in cast aluminum furniture and residential aluminum/glass greenhouses.

Their international experience includes covering product sourcing, contact negotiation, product design, production, quality control, export packaging, development of product literature and retail packaging and transport and customs work.

Keller Industries, of Miami, Florida, was established in 1951 and manufactures for mass merchandisers. Their worldwide sourcing and international sales of products from Spain, Holland, the Caribbean, Canada and Mexico brought in $260 million in annual sales in 1989.

Keller's principal products are wooden and aluminum ladders, building components (windows and doors) and casual furniture for home and patio. Keller is also interested in sourcing extruded aluminum components and extruded plastic thread and webbing.

APPENDIX C

UTILITY SHEDS PROFILE

PROCEDURES FOR SUBMITTING UNSOLICITED PROPOSALS TO SEARS, ROEBUCK AND CO.

PROCEDURES FOR SUBMITTING UNSOLICITED PROPOSALS TO SEARS, ROEBUCK AND CO.

Each year, we receive thousands of unsolicited proposals from individuals, companies and other outside sources desiring to do business with Sears. While the receipt of these proposals is appreciated, certain requirements must be met before an unsolicited proposal will be reviewed by Sears. The following procedures outline these requirements:

PROPOSALS SEARS WILL REVIEW

Sears will review proposals for products which are:

- patented in the United States and/or
- currently available for sale in the marketplace

PROPOSALS SEARS WILL NOT REVIEW

Sears will not review proposals for products on which:

- a patent application is pending,
- only a foreign patent exists, or
- the patent has expired

Unless the product is currently available for sale in the market place.

Other proposals Sears will not review:

- products which you would like Sears to manufacture (SEARS DOES NOT MANUFACTURE ANY PRODUCTS).
- clothing designs,
- advertising, marketing of other promotional concepts,
- trademarks
- games

PREREQUISITES FOR REVIEW

A. Patented Products

If a United States patent has been issued on your invention and you would like Sears to review it we request that you (or your attorney/agent) forward:

- a complete copy of the issued patent.

B. Products Available for Sale in the Marketplace

If your product is currently for sale in the marketplace and you would like Sears to review it, we request that you (or your attorney/agent) forward:

- Advertising or promotional materials, such as brochures, sales literature, price lists and catalogs, which provide information about the product.

DO NOT SEND SAMPLES OF PRODUCTS.

These materials, together with a cover letter briefly describing the proposal, should be sent to:

Sears, Roebuck and Co.
Unsolicited Proposals
Department 731CR,BSC 39-33
Sears Tower
Chicago, IL 60684

REVIEW PROCESS

If the prerequisites for review have been met, the proposal will be forwarded to the Sears Buying Department best qualified to appraise its merits. You should be informed in writing as to Sears interest, if any, in your proposal within six weeks after receipt.

Personal presentation will not be accommodated unless specifically requested by a Sears buyer.

We will not consider unsolicited proposals on a confidential basis nor under any conditions imposing restrictive obligations on Sears Proposals accompanied by a confidentiality agreement or a dis -- closure release agreement will be returned to you without review.

No agreement for compensation shall be implied from Sears consideration or review of any unsolicited proposal. Also, Sears assumes no obligation to return materials submitted, or evaluate and/or use any unsolicited proposal.

To obtain the telephone number for U.S. companies listed by city and state, locate the state and city on the area code table below and dial the corresponding area code + 555 1212 and give the name of the company and city to the operator. In the case that the city is not listed in the table below, call any of the area codes corresponding to the company's state + 555 1212 and the operator can provide the correct area code to dial for further information.

place	area code
Alabama	
all locations	205
Alaska	
all locations	907
Arizona	
all locations	602
Arkansas	
all locations	501
Bahamas	
all locations	809
Bermuda	
all locations	809
California	
Anaheim	714
Bakersfield	805
Burbank	818
Huntington Beach	714
Long Beach	213
Los Angeles	213
Riverside	714
Sacramento	916
San Diego	619
San Fernando	818
San Francisco	415
San Jose	408
Santa Ana	714
Van Nuys	818
Canada	
London, Ont.	519
Montreal, Quebec	514
North Bay, Ont.	705
Ottawa, Ont.	613
Quebec, Quebec	418
Thunder Bay, Ont.	807
Toronto, Ont.	416
Trois Rivieres, Quebec	819
Val d' Or, Quebec	819
Colorado	
Aspen	303
Boulder	303
Colorado Springs	719
Denver	303
Pueblo	719
Vail	303
Connecticut	
all locations	203
Delaware	
all locations	302
District of Columbia	
Washington	202
Florida	
Boca Raton	407
Ft. Lauderdale	305
Hialeah	305
Hollywood	305
Jacksonville	904
Key West	305
Miami	305
St. Petersburg	813
Orlando	407
Tampa	813
Tallahassee	904
West Palm Beach	407
Georgia	
Atlanta	404
Columbus	404
Macon	912
Rome	404
Savannah	912
Waycross	912
Hawaii	
all locations	808
Idaho	
all locations	208
Illinois	
Alton	618
Aurora	312
Cairo	618
Casey	217
Chicago	312
Decatur	217
Elgin	312
Highland Park	312
La Grange	312
La Salle	815
Mt. Vernon	618
Peoria	309
Rockford	815
Springfield	217
Indiana	
Evansville	812
Fort Wayne	219
Gary	219
Hammond	219
Indianapolis	317
Kokomo	317
Michigan City	219
South Bend	219
Iowa	
Cedar Rapids	319
Council Bluffs	712
Davenport	319
Des Moines	515
Dubuque	319
Mason City	515
Sioux City	712
Kansas	
Dodge City	316
Kansas City	913
Ottawa	913
Topeka	913
Wichita	316
Kentucky	
Ashland	606
Dade Park	812
Frankfort	502
Lexington-Fayette	606
Louisville	502
Shelbyville	502
Winchester	606
Louisiana	
Baton Rouge	504
Lake Charles	318
New Orleans	504
Shreveport	318
Maine	
all locations	207
Maryland	
all locations	301
Massachusetts	
Boston	617
Framingham	508
New Bedford	617
Plymouth	508
Springfield	413
Worcester	617
Michigan	
Adrian	517
Ann Arbor	313
Battle Creek	616
Detroit	313
Escanaba	906
Flint	313
Grand Rapids	616
Jackson	517
Kalamazoo	616
Lansing	517
Livonia	313
Monroe	313
Saginaw	517
Sault Ste. Marie	906
Sterling Heights	313
Warren	313
Minnesota	
Albert Lea	507
Claremont	507
Duluth	218
Minneapolis	612
Rochester	507
St. Paul	612
Mississippi	
all locations	601
Missouri	
Independence	816
Jefferson City	314
Joplin	417
Kansas City	816
St. Joseph	816
St. Louis	314
Springfield	417
Montana	
all locations	406
Nebraska	
Abbott	308
Lincoln	402
North Platte	308
Omaha	402
Nevada	
all locations	702
New Hampshire	
all locations	603
New Jersey	
Atlantic City	609
Camden	609
Elizabeth	201
Hackensack	201
Jersey City	201
Newark	201
Paterson	201
Trenton	609
New Mexico	
all locations	505
New York	
Albany	518
Babylon	516
Binghamton	607
Buffalo	716
Elmira	607
Greenwich	518
Hempstead	516
Monroe	914
Mt. Vernon	914
New York City	
Bronx	212
Brooklyn	718
Kennedy Int'l Airport	718
La Guardia Airport	718
Manhattan	212
Queens	718
Staten Island	718
Niagara Falls	716
Peekskill	914
Poughkeepsie	914
Rochester	716
Schenectady	518
Stamford	607
Syracuse	315
Troy	518
Utica	315
White Plains	914
Yonkers	914
North Carolina	
Charlotte	704
Durham	919
Greensboro	919
Raleigh	919
Winston-Salem	919
North Dakota	
all locations	701
Ohio	
Akron	216
Alliance	216
Canton	216
Cincinnati	513
Cleveland	216
Columbus	614
Dayton	513
East Liverpool	216
East Palestine	216
Girard	216
Lodi	216
Lorain	216
Marietta	614
Massillon	216
Newark	614
Niles	216
Ravenna	216
Salem	216
Steubenville	614
Toledo	419
Youngstown	216
Zanesville	614
Oklahoma	
Muskogee	918
Oklahoma City	405
Tulsa	918
Oregon	
all locations	503
Pennsylvania	
Allentown	215
Altoona	814
Chester	215
Erie	814
Harrisburg	717
Hershey	717
Johnstown	814
Paoli	215
Philadelphia	215
Pittsburgh	412
Punxsutawney	814
Reading	215
Scranton	717
Swarthmore	215
Upper Darby	215
Valley Forge	215
West Chester	215
Wilkes-Barre	717
Puerto Rico	
all locations	809
Rhode Island	
all locations	401
South Carolina	
all locations	803
South Dakota	
all locations	605
Tennessee	
Chattanooga	615
Knoxville	615
Memphis	901
Nashville	615
Texas	
Amarillo	806
Arlington	817
Austin	512
Beaumont	409
Corpus Christi	512
Dallas	214
El Paso	915
Fort Worth	817
Garland	214
Houston	713
Irving	214
Lubbock	806
Pasadena	713
San Antonio	512
Waco	817
Utah	
all locations	801
Vermont	
all locations	802
Virgin Islands	
all locations	809
Virginia	
Alexandria	703
Chesapeake	804
Hampton	804
Newport News	804
Norfolk	804
Portsmouth	804
Richmond	804
Roanoke	703
Virginia Beach	804
Winchester	703
Washington	
Olympia	206
Pullman	509
Seattle	206
Spokane	509
Tacoma	206
Vancouver	206
Walla Walla	509
West Virginia	
all locations	304
Wisconsin	
Bay City	715
Beloit	608
Madison	608
Milwaukee	414
Wyoming	
all locations	307

32688

GUATEMALA: PRODUCTS & MARKETS FOR EXPORT GROWTH

FINAL REPORT

MARKET PROFILE: METAL GARDEN AND PATIO FURNITURE

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID/Guatemala*
and
The Non-Traditional Products Exporters Guild of Guatemala

Prepared by: *Ernst & Young*

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May 1990

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MARKET PROFILE:

METAL GARDEN AND PATIO FURNITURE

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METAL GARDEN AND PATIO FURNITURE

I. The Product, its Production and Industrial Outlook

a. Description of Product

The product under consideration is wrought iron, cast iron or aluminum furniture, primarily for residential porch and patio use. Metal porch, lawn, outdoor and casual furniture includes tables, chairs, rockers, benches, chaise lounges, and settees in tubular and cast aluminum, cast and wrought iron, or in other metals such as steel. This furniture may include a secondary material, such as wood, glass, or possibly marble. Similarly constructed furniture is frequently used for public outdoor spaces.

Metal garden and patio furniture fall within the larger "metal household furniture" industry classification (SIC 2514). This broader classification includes metal bed frames; folding, rollable, and army cots; convertible sofas; card tables and chairs; hostess carts; medicine cabinets; metal household dining room and kitchen furniture; and other metal household furniture.

b. Production Considerations

Metal furniture varies considerably in style, quality, and price.

The porch and patio segment of the metal furniture market encompasses furniture of many different designs and quality levels, ranging from the inexpensive tubular aluminum furniture with plastic and vinyl strapping to intricate period designs in hand-forged wrought iron. The most expensive versions are actual reproductions of museum metal garden furniture, whose design was first seen in the 18th and 19th centuries.

The aluminum furniture is primarily produced for the mass market. The principal advantage of using this metal is that the furniture is lighter and more portable and rust resistant. Upscale aluminum furniture is made using extruded aluminum bent and welded while the lower end is made of aluminium tubing manufactured by rolling. Cast aluminum furniture is also differentiated by the grade quality of the aluminum used as well as the quality of the finish once it has been cast.

Cast aluminum and cast iron furniture, where the iron is poured into molds, satisfy the middle range of the market. Wrought iron furniture is at the high end of the market, since it is generally very labor intensive and thus very high priced. Automation of wrought iron furniture manufacturing is not really achievable and the process is essentially left to

blacksmiths. Their role is to mold the iron while hot and then treat and often paint the finished product. At the very high end of the market, hand-forged wrought iron furniture is often custom designed and made. Presently, it is estimated that only the top five percent of the income population of the United States can afford this luxury item.

Quality and price tend to be tied together, at least as far as the low to medium range of the market are concerned. Design is a very important element of the furniture, and this is true at all levels of the quality spectrum. As one moves towards the upper end of the market, the importance of style and design become even more critical, while price, although still important, becomes a secondary issue.

An important element contributing to the quality of the product is the actual finish of the furniture. The manufacturer of cast metal furniture must achieve a "tight" casting of minimum porosity that will not "spit" finish-destroying acids. Ferrous metals should be painted or otherwise rust-proofed. Furniture in the medium to high range is often galvanized though coating in zinc. The type of coating most frequently used in the industry is powder coating applied through an "electrostatic" process whereby the furniture is charged and the coating is applied between electric charges.

Since most of the cast aluminum furniture is knock-down furniture, that is it can be assembled or taken apart, the hardware used with it is also an important element contributing to the overall quality of the furniture. The nuts and bolts used should preferably be in stainless steel or otherwise rust resistant. These factors are extremely important, especially when selling to the United States market since garden furniture is often left outside even during the winter months.

Packaging is also a very important factor the manufacturer must consider. Individual parts are wrapped in plastic or paper and then boxed together. Depending on the dimensions of the chairs and the diameter of the table, different packages are provided. The most common packages of knock-down furniture consist of sets containing an average size (28") table and two chairs. The table and chairs are boxed separately, with one box containing the table and one box the two chairs. Larger tables, usually 36" or 38" in diameter, are boxed with four chairs. In this case three separate boxes will be used. The standard diameter for tables are 28", 32", 36", 42" and 48".

c. Industrial Outlook

Domestic production varies depending on the type of metal furniture produced. As far as cast and tubular aluminum furniture is concerned, there are several large manufacturers producing their product in the United States. In the industry, however, there is an increasing tendency to

source from abroad, at least for components of the furniture destined to the low to medium range of the market.

Wrought iron furniture tends to rely more on imports, especially at the very high end of the market where the furniture is in large part imported from England or other European countries. A major factor playing against domestic production of hand-forged wrought iron furniture is the tediousness of the forging process which requires the blacksmith to be exposed to very high heat. The cost of labor and availability of skilled blacksmiths also favour other countries. In addition, the finished product must posses a very high content of style and design.

Among the manufacturers, importers and distributors are:

- Austram, Inc., Hillsborough, North Carolina
  (cast aluminum furniture, planters, greenhouses)

- Brown-Jordan Co., El Monte, California
  (mostly modern tubular aluminum and vinyl web garden furniture)

- Homecrest Industries, Inc., Wadena, Minnesota
  (patio furniture)

- Irving & Jones, Colebrook, Connecticut
  (museum reproductions and hand-forged wrought iron furniture in general, primarily imported from England)

- Keller Industries, Miami, Florida
  (mostly tubular aluminum and vinyl web garden furniture)

- Meadowcraft, Inc., Birmingham, Alabama
  (wrought iron and casual furniture)

- Rachlin Furniture, City of Industry, California
  (different types of metal furniture)

- Stoneville Furniture Co, Inc, Stoneville, North Carolina
  (all types of furniture)

- Sunline Industries, Miami, Florida
  (all types of furniture)

- Telescope Folding Furniture, Co., Granville, New York
  (all types of furniture)

- Tropitone Furniture Co., Sarasota, Florida
  (all types of furniture)

- Winston Furniture, Co, Inc, Birmingham, Alabama (all types of furniture)

Among the countries playing a significant role as sources to U.S. manufacturers or as exporters are:

Taiwan: aluminum furniture destined to the mass market and limited quantity of cast iron and cast aluminum furniture. Imports from this country have somewhat lowered in importance.

Mexico: aluminum furniture and components, mostly for the mass market.

Hungary: cast aluminum furniture primarily for the medium range of the market.

England, Italy, West Germany: high quality and price furniture in cast iron and cast aluminum as well as in wrought iron.

II. Market Information and Considerations

a. Market Demand and Main Market Segments

According to statistics provided by the American Furniture Manufacturers Association (AFMA), retail sales of furniture stores totaled $28.300 billion in 1989. For 1990, retail sales are forecasted to increase by 5.2 percent in dollar value, reaching $29.762 billion. This projected growth is based on high expectations for the housing market, for both starts and resales. Retail sales for 1991 are also optimistic, as indicated by a projected increase of 5.8 percent over the 1990 dollar value.

These statistics encompass the entire furniture industry. In the specific case of metal and other household furniture (SIC 2514 and 2519), the value of shipments in 1989 reached $2.441 billion. For 1990, according to AFMA's forecasts, metal and other furniture shipments should rise 4.3 percent, reaching $2.545. An even higher growth level, equal to 7.2 percent, is anticipated for 1991.

Analysis of the metal furniture market indicates that there is a continuing demand for summer furniture in the United States. This demand ranges from light and functional tubular aluminum furniture to fancier and more decorative cast or wrought iron furniture for the porch and patio, or even balconies.

Among the selling channels available to a manufacturer are the following traditional outlets:

- porch and patio stores and chains;
- furniture stores;
- the lawn and garden industry through garden centers;
- furniture departments of department stores and chains;
- architect's and decorator's show rooms for the public sector market, as well high-end residential sales;
- large discount stores, which are becoming increasingly important;
- mail order catalogues. In this industry mail orders play a limited role but constitute a good possibility nontheless, especially for cast aluminum.

b. Major Factors in the Buying Decision

The style and design of the product are the most immediate considerations when making buying decisions. The quality/price relationship is also an important factor to consider, especially in the mid-range of the market spectrum.

In addition, manufacturers, importers and distributors will evaluate and emphasize product availability. Metal furniture is a highly seasonal product, with sales reaching their annual peak in the spring and then declining in the summer and fall months. Deliveries are mostly made during the months of March, April, and May. During the high sales season, the product moves very quickly and additional deliveries must be made in a short time frame, preferably within a week.

Due to the critical time factor inherent in the sale and delivery of metal garden and patio furniture, manufacturers and distributors must warehouse adequate inventories in the United States. The manufacturer from whom they source or import must therefore be able to guarantee on time deliveries.

An additional critical element factored in the buying decision is the cost of freight. Due to the weight of metal furniture, transportation costs in this industry run very high. This explains the preference for knock-down furniture which allows a greater volume to be shipped. A 20 foot container, for example, can accommodate approximately 300 sets of furniture, based on an average size of 28" table. A 40 foot container allows to ship 600 sets while a 40 foot "high cube" container can accommodate up to 670 sets.

Because of the high cost involved, which can account for 5 to 10 percent of the purchasing price, the lowest practical quantity an importer or distributor will find cost efficient to ship is a 20 foot container. Export transportation costs will either have to be factored into the price of the product by the manufacturer or they will have to be included into the buyer's price, if he incurs the freight costs. Regardless of who takes the responsibility for shipping and incurring the transportation costs, freight is a major consideration when pricing or buying metal furniture.

As far as the end consumer is concerned, the buying decision is determined by different factors. Mass consumers tend to make their purchases depending on style, price, durability and functionality, especially if the furniture is to serve different purposes. As one moves toward the higher end on the spectrum, quality, design and style gain increasing importance, while price becomes secondary.

c. Pricing Considerations

The pricing structure encountered in the metal porch and patio furniture industry is very much a function of quantity and order placement. Volume discounts are applied depending on the quantity of furniture purchased. The time span between the placement of the order and the scheduled delivery date account for additional discounts. Although this structure can be set up to allow for relatively small quantities, the different quantity discounts offered encourage purchases of significant quantities. It is important to note that the price structure assumes that the price is competitive at the basis.

Volume discounts considerations do not apply in the case of hand-wrought iron or otherwise very labor intensive furniture which tend to be less price sensitive.

Freight cost must also be taken into account when determining the price structure for the product. As indicated above, transportation cost in this industry tends to average, but can exceed, 5-10 percent of the furniture's cost. If the freight is incurred by the manufacturer, this cost needs to be factored into the selling price of the product. This cost needs to be taken into account even in the case in which freight charges are left to the responsibility of the purchaser so as to assure price competitiveness.

As for the end consumer, price is very much a function of quality, style, design and end-use. A chair in aluminum, for example, ranges from US$ 8 to US$ 200, depending on the different combination of these factors. A very high styled chair in wrought iron, on the other hand, could cost anywhere from US$ 200 to US$ 2,000, and above.

III. Distribution Channels

a. How Does the Product Reach the End User?

Garden and patio furniture for the residential market is sold through retail outlets and, to a limited extent, through mail order catalogs. The retail market is reached primarily through trade shows and sales representatives. At trade shows, the expected retail price and the different quantity discounts are shown for each product. Major buyers evaluate products and make buying decisions in the fall while deliveries occur in the early part of the spring.

The off-shore producer will most likely sell to a manufacturer or to a warehousing importer/distributor who will serve as link with the retailers.

b. Mark-up Structure

The importer or distributor will tend to net a gross profit margin, before discount, of at least 50 percent over the landed cost. The determining factors influencing the mark-up in this case are (1) how much does the distributor discount the products, and (2) how established is the distributor in the market place. Even when these elements are factored in, the minimum profit a distributor will net is 25-30 percent, unless extremely large quantities are involved.

The retailer will then double the wholesale price resulting in a retail price of four to four and a half times the landed cost. If the merchandise is sold directly to retail stores or chains, the mark-up will tend to be two and a half to three times the U.S. landed cost. This price increase is primarily due to the fact the manufacturers and retailers have to incur expenses such as marketing and distribution of the actual product.

c. Trade Terms

Orders received in the fall will receive additional discounts over the quantity discount. Deliveries will be made in the spring under payment terms of 60 days, net 90 days. On the other hand, if orders are received during the peak season for sales, the terms of trade will be net 30 days in the case of an approved account, while COD is the standard for accounts that do not have an established credit line.

d. Import Duties

Guatemala is a beneficiary country of both the Generalized System of Preferences (GSP) and the Caribbean Basin Economic Recovery Act (CBI). As a result, metal furniture is imported free of duty. This gives Guatemala an advantage over non-GSP and non-CBI beneficiary countries, which must pay an average duty of 4.0 percent on the landed value. Metal furniture, as long as it originates from Guatemala and the direct

processing cost totals at least 35 percent of the article's custom value. U.S. Customs will require a properly completed Certificate of Origin-Form A at the point of entry. The Harmonized Tariff Schedule Number for the product category is 9403.20.00.30.4. and 9401.79.00.20.8.

IV. Recommended Export Strategy

The metal garden and patio furniture industry has been growing in recent years and the trend will most likely continue, at least in the foreseeable future. The porch and patio furniture offered to the market is varied, spanning from the mass produced and low priced furniture, primarily in aluminum, to the more ornate and expensive types in cast or wrought iron.

Guatemala could feasibly find its way into the garden and patio furniture market. The strategy followed will be somewhat different, depending on which end of the market is selected or emphasized. If the Guatemalan manufacturer finds that he is able to produce on a large scale, then his competitive advantage will be to manufacture aluminum and cast iron furniture for the mass market. In this case there will be a substantial level of mechanization involved and the labor content, although still important, will be somewhat subordinate in order of importance.

Or the manufacturer might decide that his true advantage is to focus on the highest end of the market by producing the very labor intensive hand wrought iron furniture. Inquiries, again, suggest that a strong market exists for this particular type of furniture, that it is of an indeterminate size at this time, and could be very profitably exploited by a new off-shore producer. Presently this demand is being satisfied by English and other European manufacturers, primarily because style is a critical factor in this type of furniture.

Thus, should the manufacturer determine that the hand wrought iron furniture is the market most promising in which to venture, in terms of competitive advantage, he must, among other things, assure himself that the level of style and design of the furniture satisfy the specification, demand, and taste of United States customers. Although style and design are very important factors at every level of the furniture quality spectrum, in the wrought iron market they assume paramount importance.

Irrespective of the market segment selected as target, the Guatemalan manufacturer will most likely benefit if he aligns himself with a U.S. manufacturer and distributor. In this business relationship both parties will derive an advantage. The Guatemalan company would supply its comparatively less expensive labor while the U.S. counterpart will provide assistance in the specifications, designs and production of the ultimate products. Most importantly, the U.S. "partner" can contribute an

already established and proved network for importing into the United States and distributing to the various retail outlets.

Aside from the issue of the avenue selected to penetrate the U.S. market, a manufacturer contemplating exporting to the United States must be able to assure to its prospective clients consistency of quality in the production and finish of the furniture, dependability of delivery, as well as professional packaging.

In addition to the metal furniture market, the manufacturer might consider venturing into the housewares and garden decorative metal accessory items market. For a more detailed discussion of these items, please refer to Appendix A.

V. Trade Associations, Publications and Shows

a. Trade Association

Summer and Casual Furniture Manufacturers Association, division of the American Furniture Manufacturers Association, P.O. Box HP-7, High Point, North Carolina 27261. Phone: (919) 884-5000; telefax: (919) 884-5303

b. Principal Trade Shows

International Home Furnishing Market, Highpoint, North Carolina. This is the most important trade show in this industry. There are two shows a year, in the Fall and Spring, with the one in the Fall being the most important.

National Casual Furniture Market, Merchandize Mart, Chicago, Illinois. Show will be held September 13-17. For registration and information: Linda Wellington, phone: (312) 527-7640.

National Housewares Manufacturers Association, Chicago (annual) and Atlanta (annual, but far less important).

c. Principal Trade Publication

Casual Living Magazine, 370 Lexington Avenue, New York, N.Y. Phone: (212)532-9290.

APPENDIX A

HOUSEHOLD AND GARDEN DECORATIVE METAL ITEMS

Along with metal furniture for the garden and patio, the Guatemalan metals manufacturer could venture into accessory household and garden items, and kitchen accessories, also made in metal, which could find a ready market in the housewares and giftware fields.

The kitchen accessory items includes decorative utilitarian trivets such as scoops, measuring devices, serving spoons, and similar decorative kitchen devices in which the function is secondary. Various types of kitchen racks, such as pots and "baker" racks, spice and food containers shelves, as well as pots and pans can also be included in this category.

The accessory housewares and garden area, on the other hand, includes such items as shelf brackets, decorative storage shelf, umbrella stands, magazine racks, small accessory tables, music stands, planters and plant stands, garden sun dials, and many other similar products.

Many of these products, if designed with a contemporary "look" and somewhat unique in style and design, can find a ready market in the United States. The only word of caution is for metal containers and devices that serve an utilitarian purpose along with being decorative. Pots, pans and casseroles in aluminum, for example, will encounter a certain level of prejudice in the United States since this metal is not consider suitable for cooking food. These items, to be accepted in the U.S. market, will need to be coated in the interior with a non-toxic, non-sticking product such as Teflon. The manufacturer will also need to offer a complete line, again in a contemporary style and design that will appeal to the U.S. market.

The channels of distribution for this type of products will be different from those used in the case of porch and patio furniture. They will tend to be similar to the channels a manufacturer will employ in the case of wood housewares and giftware.

APPENDIX B

METAL GARDEN AND PATIO FURNITURE

Market Experts/Buyers

David Fernandez, President of Austram, Inc., Mr. E.Z. Johnson, President of Keller Industries' Logistics Division, and Mr. Norbert Nelson of Norbert Nelson Inc. have been invited to Guatemala to join the Ernst & Young team as Metal Garden and Patio Furniture market experts. In Guatemala, Mssrs. Fernandez, Johnson, and Nelson will participate in the market profile presentation and meet with potential suppliers to examine their capabilities and discuss opportunities for developing business relationships with Austram, Keller, and Nelson Inc.. Their visits will provide Guatemalan businessmen with an opportunity to learn about different segments of the U.S. metal garden and patio furniture market, and about their potential to conduct business with these companies.

Austram, established in 1983 in Hillsborough, North Carolina, is a manufacturer/importer of lawn and garden accessories. Their main product line consists of lawn and garden accessories, primarily planters. Austram also has experience in cast aluminum furniture and residential aluminum/glass greenhouses.

Their international experience includes covering product sourcing, contact negotiation, product design, production, quality control, export packaging, development of product literature and retail packaging and transport and customs work.

Keller Industries, of Miami, Florida, was established in 1951 and manufactures for mass merchandisers. Their worldwide sourcing and international sales of products from Spain, Holland, the Caribbean, Canada and Mexico brought in $260 million in annual sales in 1989.

Keller's principal products are wooden and aluminum ladders, building components (windows and doors) and casual furniture for home and patio. Keller is also interested in sourcing extruded aluminum components and extruded plastic thread and webbing.

Mr. Norbert Nelson, President of Norbert Nelson, Inc., has been invited to Guatemala to join the Ernst & Young team as wrought iron furniture market expert. In Guatemala, Mr. Nelson will participate in the market profile presentation and meet with potential suppliers to examine their capabilities and to discuss opportunities for developing business relationships with his firm. His visit will provide Guatemala businessmen with an opportunity to learn about different segments of the U.S. wrought iron furniture market, and about their potential to conduct business in this market.

Norbert Nelson, Inc. was established in 1978 in New York City, New York. It is a style hardgoods product development and marketing consulting firm, serving the giftware, housewares, home furnishings, and accessories industries. Their main product lines are: giftware, housewares, home furnishings, and home accessories. Their international experience include establishing international sourcing arrangements -- since 1949 roughly 20% of Mr. Nelson's experience has been overseas. Countries in which the company has conducted business include: Guatemala, Mexico, El Salvador, Colombia, Ecuador, Peru, U.S. Virgin Islands, Haiti, Puerto Rico, Bolivia, Great Britain, Ireland, France, the Scandinavian countries, West Germany, Spain, Italy, Canada, Hong Kong, Korea, Japan, and the Philippines. Mr. Nelson's interest in Guatemala is to develop sources for particular products and to establish business relationships.

Mr Nelson currently serves as the Director of the National Crafts Showroom in New York. In addition to representing approximately 200 American crafts people, this non-profit group interfaces with national, international and regional craft organizations, both public and private, and with craft cooperatives in the U.S. and abroad.

Appendix C

To obtain the telephone number for U.S. companies listed by city and state, locate the state and city on the area code table below and dial the corresponding area code + 555 1212 and give the name of the company and city to the operator. In the case that the city is not listed in the table below, call any of the area codes corresponding to the company's state + 555 1212 and the operator can provid the correct area code to dial for further information.

place	area code
Alabama	
all locations	205
Alaska	
all locations	907
Arizona	
all locations	602
Arkansas	
all locations	501
Bahamas	
all locations	809
Bermuda	
all locations	809
California	
Anaheim	714
Bakersfield	805
Burbank	818
Huntington Beach	714
Long Beach	213
Los Angeles	213
Riverside	714
Sacramento	916
San Diego	619
San Fernando	818
San Francisco	415
San Jose	408
Santa Ana	714
Van Nuys	818
Canada	
London, Ont.	519
Montreal, Quebec	514
North Bay, Ont.	705
Ottawa, Ont.	613
Quebec, Quebec	418
Thunder Bay, Ont.	807
Toronto, Ont.	416
Trois Rivieres, Quebec	819
Val d' Or, Quebec	819
Colorado	
Aspen	303
Boulder	303
Colorado Springs	719
Denver	303
Pueblo	719
Vail	303
Connecticut	
all locations	203
Delaware	
all locations	302
District of Columbia	
Washington	202

place	area code
Florida	
Boca Raton	407
Ft. Lauderdale	305
Hialeah	305
Hollywood	305
Jacksonville	904
Key West	305
Miami	305
St. Petersburg	813
Orlando	407
Tampa	813
Tallahassee	904
West Palm Beach	407
Georgia	
Atlanta	404
Columbus	404
Macon	912
Rome	404
Savannah	912
Waycross	912
Hawaii	
all locations	808
Idaho	
all locations	208
Illinois	
Alton	618
Aurora	312
Cairo	618
Casey	217
Chicago	312
Decatur	217
Elgin	312
Highland Park	312
La Grange	312
La Salle	815
Mt. Vernon	618
Peoria	309
Rockford	815
Springfield	217
Indiana	
Evansville	812
Fort Wayne	219
Gary	219
Hammond	219
Indianapolis	317
Kokomo	317
Michigan City	219
South Bend	219
Iowa	
Cedar Rapids	319
Council Bluffs	712
Davenport	319
Des Moines	515
Dubuque	319
Mason City	515
Sioux City	712
Kansas	
Dodge City	316

place	area code
Kansas City	913
Ottawa	913
Topeka	913
Wichita	316
Kentucky	
Ashland	606
Dade Park	812
Frankfort	502
Lexington-Fayette	606
Louisville	502
Shelbyville	502
Winchester	606
Louisiana	
Baton Rouge	504
Lake Charles	318
New Orleans	504
Shreveport	318
Maine	
all locations	207
Maryland	
all locations	301
Massachusetts	
Boston	617
Framingham	508
New Bedford	617
Plymouth	508
Springfield	413
Worcester	617
Michigan	
Adrian	517
Ann Arbor	313
Battle Creek	616
Detroit	313
Escanaba	906
Flint	313
Grand Rapids	616
Jackson	517
Kalamazoo	616
Lansing	517
Livonia	313
Monroe	313
Saginaw	517
Sault Ste. Marie	906
Sterling Heights	313
Warren	313
Minnesota	
Albert Lea	507
Claremont	507
Duluth	218
Minneapolis	612
Rochester	507
St. Paul	612
Mississippi	
all locations	601
Missouri	
Independence	816
Jefferson City	314
Joplin	417
Kansas City	816

place	area code
St. Joseph	816
St. Louis	314
Springfield	417
Montana	
all locations	406
Nebraska	
Abbott	308
Lincoln	402
North Platte	308
Omaha	402
Nevada	
all locations	702
New Hampshire	
all locations	603
New Jersey	
Atlantic City	609
Camden	609
Elizabeth	201
Hackensack	201
Jersey City	201
Newark	201
Paterson	201
Trenton	609
New Mexico	
all locations	505
New York	
Albany	518
Babylon	516
Binghamton	607
Buffalo	716
Elmira	607
Greenwich	518
Hempstead	516
Monroe	914
Mt. Vernon	914
New York City	
Bronx	212
Brooklyn	718
Kennedy Int'l Airport	718
La Guardia Airport	718
Manhattan	212
Queens	718
Staten Island	718
Niagara Falls	716
Peekskill	914
Poughkeepsie	914
Rochester	716
Schenectady	518
Stamford	607
Syracuse	315
Troy	518
Utica	315
White Plains	914
Yonkers	914
North Carolina	
Charlotte	704
Durham	919
Greensboro	919
Raleigh	919

place	area code
Winston-Salem	919
North Dakota	
all locations	701
Ohio	
Akron	216
Alliance	216
Canton	216
Cincinnati	513
Cleveland	216
Columbus	614
Dayton	513
East Liverpool	216
East Palestine	216
Girard	216
Lodi	216
Lorain	216
Marietta	614
Massillon	216
Newark	614
Niles	216
Ravenna	216
Salem	216
Steubenville	614
Toledo	419
Youngstown	216
Zanesville	614
Oklahoma	
Muskogee	918
Oklahoma City	405
Tulsa	918
Oregon	
all locations	503
Pennsylvania	
Allentown	215
Altoona	814
Chester	215
Erie	814
Harrisburg	717
Hershey	717
Johnstown	814
Paoli	215
Philadelphia	215
Pittsburgh	412
Punxsutawney	814
Reading	215
Scranton	717
Swarthmore	215
Upper Darby	215
Valley Forge	215
West Chester	215
Wilkes-Barre	717
Puerto Rico	
all locations	809
Rhode Island	
all locations	401
South Carolina	
all locations	803
South Dakota	
all locations	605

place	area code
Tennessee	
Chattanooga	615
Knoxville	615
Memphis	901
Nashville	615
Texas	
Amarillo	806
Arlington	817
Austin	512
Beaumont	409
Corpus Christi	512
Dallas	214
El Paso	915
Fort Worth	817
Garland	214
Houston	713
Irving	214
Lubbock	806
Pasadena	713
San Antonio	512
Waco	817
Utah	
all locations	801
Vermont	
all locations	802
Virgin Islands	
all locations	809
Virginia	
Alexandria	703
Chesapeake	804
Hampton	804
Newport News	804
Norfolk	804
Portsmouth	804
Richmond	804
Roanoke	703
Virginia Beach	804
Winchester	703
Washington	
Olympia	206
Pullman	509
Seattle	206
Spokane	509
Tacoma	206
Vancouver	206
Walla Walla	509
West Virginia	
all locations	304
Wisconsin	
Bay City	715
Beloit	608
Madison	608
Milwaukee	414
Wyoming	
all locations	307

32680

GUATEMALA: PRODUCTS & MARKETS FOR EXPORT GROWTH

FINAL REPORT

MARKET PROFILE: MUD FLAPS

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID / Guatemala*
and
The Non-Traditional Products Exporters Guild of Guatemala

Prepared by: *Ernst & Young*

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MARKET PROFILE:

MUD FLAPS

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MUD FLAPS

I. The Product, its Production and Industrial Outlook

a. Description of Product

A mud flap, or splash guard, is a usually rectangular piece of rubber or plastic that is hung from the underside of a vehicle to cover the back of the tires to prevent mud and stones from dirtying the underside of the truck, or damaging other vehicles. Mud flaps can be plain, or customized with a manufacturer's logo, advertising, or other information. Mud flaps are required by law on all medium- and large-sized trucks that operate in the United States. Mud flaps are also used on automobiles; this profile, however, will only address mud flaps used on trucks.

Mud flaps come in a variety of sizes and styles, depending on who is using them, and for what purpose, i.e., original equipment component versus a replacement part. The dimensions of a mud flap will depend on whether it is used on a truck or trailer, or placed behind the front axle or the rear axle. The rear flaps are larger than the front. The average front mud flap is 18 inches wide by 24 inches high. The average rear mud flap is 24 inches wide by 36 inches high. Dimensions also change in relation to the tonnage of the truck or trailer. One manufacturer indicated they produced 18 different sizes of mud flaps for the truck market. In addition, most manufacturers indicated they would customize each production run to the specifications of the purchaser.

b. Production Considerations

The majority of mud flaps currently produced are made from a blend of scrap rubber and other related-rubber materials, although a growing amount are also being produced in plastic. Few currently used in the United States are made from natural rubber. However, this is due to the larger availability of synthetic rubber in the United States and not to special requirements of the product. In general, the durability of a mud flap and that of the metal brace which attaches the flap to the truck or trailer, are the critical concerns, both in the production and purchasing process. Mud flaps made of rubber tend to last longer and retain their shape while on the truck. Rubber mud flaps are more flexible. Conversely, plastic mud flaps are more subject to becoming brittle and breaking in cold weather.

There is some growth in the use of plastic mud flaps. In some regions of the United States, plastic flaps are actually capturing some of rubber mud flap market.

Although a clear advantage to using natural rubber versus other materials has not been identified, it could become cost competitive in the

near future. If petroleum prices increase, as forecasted, synthetic rubber and plastic prices, the other materials dependent petroleum as an ingredient, could rise. In addition, one rubber manufacturer said that natural rubber was highly abrasion resistant, and more flexible than synthetic rubber mud flaps. However, the key competitive factor is price.

The manufacturing of rubber products, in general, is labor intensive. Currently, the average labor content of rubber products world wide is estimated at 31 percent. Given Guatemala's lower labor costs relative to the U.S., it should enjoy a comparative advantage in the production of rubber products. The production of mud flaps in the United States, however, is not considered to be labor intensive. One exception is in the changing the molds for customized orders, which does add some labor costs to the production process. Customized orders dominate the market. Approximately 75 percent mud flaps sold are made to custom order, while only 25 percent are based on a standard model. Production runs tend to be as small as 25 to 50 pair for customized orders, although the larger mud flap manufacturers specify a 50 pair minimum order requirement for customized flaps. General delivery time for a customized order is 4 to 8 weeks; for a non-customized order, the normal turn-around time is one week.

The U.S. Society of Automotive Engineers publishes guidelines on recommended materials and dimensions of rear wheel splashes/mud flaps, and recommended means to ensure stone throw protection. Guatemalan producers may need to adapt their mud flaps to accommodate some U.S. consumers who desire a rigid flap that will not swing up when the truck is driven at high speeds. One method used in the U.S. is to insert steel rods in the flap.

There is little apparent importing of mud flaps into the United States. However, one industry analyst spoke of mud flaps made of scrap rubber being produced in Mexico's free trade zone for export to the United States.

c. Industrial Outlook

Mud flaps are classified under the miscellaneous fabricated rubber products industry (SIC 3069). This industry consists of over 1,300 establishments that produce a wide variety of products, including sponge and foam goods; floor and wall coverings; shoe products; drug and medical sundries; compounds; molded, extruded, and lathe-cut goods; industrial products; and coated fabrics. The market for many fabricated rubber products is dependent on demand from the motor-vehicle industry. The industry in the United States has been affected by international competition and declining demand resulting from substitution of plastics for rubber. Assuming modest expansion in motor vehicle production, the fabricated rubber products industry will most likely grow at an estimated annual rate of 1.5%. Imports in the United States are projected to exceed exports in the foreseeable future.

There are currently ten to fifteen major manufacturers of mud flaps in the United States. The following is a list of some U.S. manufacturers.

Dayco
33 W 1st Street
Dayton, Ohio 45401
Tel. (513) 226 5968

Heavy Duty Regional Warehouse
P.O. Box 5204
North Branch, N.J. 08876
Tel. (201) 534 5113
800 524 0608

Gates Rubber Company
900 S. Broadway
Denver, Colorado 80217
Tel. (303) 744 5323
Contact: Terry Smith

Lancaster Colony Corporation
P.O. Box 42364
Cincinnati, Ohio 45242
Tel. (513) 563 6789
Contact: Alex Moroni
This company manufactures and exports rubber and plastic mud flaps. They may be interested in distributing Guatemalan mud flaps to other countries.

None of these manufacturers produce only mud-flaps; instead they provide a variety of product lines to the automotive and truck original equipment manufacturers and to replacement part service centers. Industry experts indicate that the mud flap component of the industry is a competitive one, given that production runs tend to be small in view of the preference for a customized product. However, original equipment manufacturers are always looking for less expensive sources of supply in order to be cost competitive. If Guatemala could produce a line of rubber motor vehicle parts, in addition to mud flaps, and at a competitive price, they could be a very attractive source of supply to certain original equipment manufacturers.

For several years, consumer groups have been lobbying for anti-spray mud flaps, i.e., controlling the amount of spray created by a heavy truck in rainy weather. For plastic mud flaps, this would mean putting grooves on them; for rubber flaps, nipples would be evenly placed on the side of the flap facing the wheel. Both of these processes would force the water to run down the flap versus spraying outward. At this point, Oregon is the only state in the U.S. that has passed regulations requiring anti-spray mud flaps. It is

not certain that other states will follow suit. The trucking lobby in the U.S. which is very large, has managed to defeat any federally-sponsored legislation. However, producing a anti-spray mud flap as a standard product could become a unique selling advantage for a manufacturer considering entering the market.

II. The Market

a. Market Demand

The market for mud flaps in the U.S. is estimated to be in excess of $30 million. The two major consumers/purchasers of mud flaps are the motor vehicle manufacturers, in particular truck and trailer manufacturers, and vehicle accessories and parts distributors and service establishments, often called the "after market" by distributors. U.S. law requires every medium to large size truck to have a mud flap behind every set of wheels, both on the cab and the trailer of the truck. Consequently, each truck has a minimum of two to three pairs of mud flaps, with larger trucks having three pairs. Trucks are fined if they are without a mud flap.

The U.S. Motor Vehicle Manufacturers Association (MVMA) estimated there were 47 million trucks on the U.S. roads in 1988. This total includes all weight categories, from light, pick-up trucks to the heavy, commercial trucks used for construction and transport of goods. Mud flaps are required by law only on the medium to heavy trucks. Based on statistics for the total retail sales of new trucks in the United States in the gross vehicle weight class above 19,500 lbs for a ten year period, it is calculated that 7% of the total number of trucks on the road in the U.S. are required to have mud flaps. Therefore, the total number of medium to heavy trucks on the road is 3,290,000. It is expected that this number will increase, in view that 1989 saw the largest increase in heavy truck sales, with truck manufacturers straining their production capacity. The longer term prognosis for the medium to heavy trucking industry in general is a positive one, especially for the more efficient carriers.

In order to get an idea of the current demand and sales for mud flaps, the following calculations were made:

US annual sales of new trucks over
19,501 gross vehicle weight, 1987

Lbs.	Units	Pairs of Mud flaps/truck
19,501-26,000:	38,331 trucks	2
26,001-33,000:	88,172 trucks	2
33,001 & Over:	130,260 trucks	3
TOTAL	256,763 trucks	

Based on this information, the estimated annual demand for mud flaps for the original equipment manufacturers' (OEM) market is 642,786 pairs. The average price of a pair of mud flaps to the OEM market may range from $4 to $10 per pair. Therefore, at the average of $6 per pair, the annual sales of new mud flaps is approximately US$3,856,716.

The "aftermarket" for mud flaps is the much larger one. The MVMA states that heavy trucks last an average of 12 years and the industry experience is that a standard mud flap will be replaced every three years or 500,000 miles. Therefore, large trucks can be expected to require 6 to 9 pairs of replacement flaps during their life span. In conclusion, the U.S. "aftermarket " for mud flaps for the life span of all trucks on the road today is approximately 24,675,000 pairs (3,290,000, the total number of medium and heavy trucks on the road, X 7.5). This means that an average of 2,056,250 (24,675,000/12) pairs are replaced each year at an average retail price of $14 per pair. This amounts to "aftermarket" retail sales of $28,787,500.

In addition to being a large market, the mud flap market is one that is very price sensitive. The quality of the mud flap does not play a major role in the purchase decision, whereas the price, and the ability to customize the mud flap, are critical variables.

b. Main Market Segments

The main market segments for mud flaps in the U.S. are the original equipment manufacturers (OEM) and the "after market" (replacement part market). The main end user of mud flaps, as indicated before, is the medium to heavy truck owner, since they are required by law to have mud flaps. Automobiles also use mud flaps, although it is estimated that only 25% of the cars on the road have this accessory. Even though this is a large market (137,929,000 automobiles in 1987/25% = 34,482,250 automobiles using one pair of mud flaps), emphasis is given to the truck industry market.

The OEM market is very concentrated in the U.S., with five companies dominating the production of medium to heavy trucks. In 1987 they were ranked as follows: (1) Navistar International Trans. Corp, (2) General Motors Company, (3) Ford Motor Company, (4) Freightliner Corporation, and (5) Mack Trucks, Inc. Several of the OEM's also own their own distribution networks, providing entry into the "after market." OEM will tend to purchase in larger volumes, and predominantly will request a customized product, at least with their company logo. However, margins are less on the OEM market, since they will want to negotiate a very low per unit price.

The "after market," in general, is highly fragmented, with thousands of small distributors and wholesale operations selling to the multifold of truck and automobile parts and service outlets, and larger hardware stores. However, the "after market" represents a much larger market than OEM because of the long life of trucks and trailers. Margins will be higher, but order sizes will be smaller than for the OEM market.

c. Major Factors in Buying Decision

Price is the critical factor in the purchasing decision, both for the OEM market and the after market. Both markets will favor the customized product, such that quality of the embossing or molding of the customized print, and the design, will become of secondary importance. Durability and content of the product are of less concern.

d. Pricing Considerations

Most manufacturers indicated that, on average, there are six to seven styles of mud flaps, and a variety of sizes. Plain black mud flaps reportedly to sell at US$3-5.00 per pair wholesale to distributors, and sell for approximately US$ 14.00 retail, indicating a 150% mark up. A pair of customized, high quality flaps will sell for approximately US$21.00 wholesale. Variations occur in the industry, and price will be affected in relation to the volume of the order and the degree of customization required. Some truck service companies will provide and install free of charge mud flaps advertising the service company.

Price is the single most critical factor which a potential purchaser will consider.

III. Distribution Channels

a. How the Product Reaches the End User

The larger scale mud flap manufacturers sell direct to OEMs and to distributors, primarily truck supply distributors, who then sell to truck service stations, automotive and truck part retail stores, and a small volume to hardware retail outlets. The manufacturers use a direct sales force to sell to these distributors. There are approximately 500 major regional distributors. Sales representatives charge an average commission rate of about 7%.

The smaller manufacturers concentrate on customized mud flaps and sell direct to their end users, in this case some OEM's and retail stores (small in size). They sell a large volume of mud flaps, most of which carry advertising. Most of their sales are in small quantities, with a 25 pair average order size for smaller distributors.

b. Potential Marketing Partners for Mud Flaps

Some original equipment manufacturers (OEMs) may be potential marketing partners for Guatemalan manufacturers. Proposals would have to be made to the purchasing agents in the respective companies, and price and volume will be the critical determining factors. The OEM controlled distributors are a second means of tapping into a steady supply, since they will require smaller order sizes, and pay higher margins. The following is a list of addresses of some of the OEMS:

Timpte Industries, Inc.
5990 N. Washington St.
Denver, Colorado 80216
Tel. (303) 296 3366

Mack Trucks, Inc.
2100 Mack Blvd.
Allentown, Pa. 18105
Tel. (215) 439 2131

Fruehauf Corp.
10900 Harper Ave.
Detroit, Michigan 48213
Tel. (313) 267 1000

Saab-Scania of America, Inc.
P.O. Box 697
Orange, Connecticut 06477
Tel. (203) 795 5671

Navistar International Corp.
401 N. Michigan Ave.
Chicago, Illinois 60611
Tel. (312) 836 2000

Peterbilt Motors Company
38801 Cherry Street
Newark, California 94560
Tel. (415) 790 4000

Freightliner Corp.
P.O. Box 3849
Portland, Oregon 97208
Tel. (503) 283 8000

Ford Motor Co.
The American Road
Dearborn, Michigan 48121
Tel. (313) 322 3000

General Motors
3044 W. Grand Blvd.
Detroit, Michigan 48202
Tel. (313) 556 5000

The following is a list of distributors and truck equipment suppliers who have indicated interest in learning about new sources of supply of mud flaps and/or related products.

Truck Equipment Corporation
4665 Enterprise
Boise Idaho 83705
Phone 208 342 7788
Fax 208 345 8015
Contact: Mike Hasson
This company purchases only rubber mud flaps. Most of the flaps contain advertising for this company. The company buys a small number of plain flaps. 90% of the flaps are used in-house when the company installs truck bodies. The remaining flaps are sold to auto parts stores and jobbers. The company pays $4.60 per flap for a 24 inch by 36 inch flap with advertising, which they purchase from a wholesaler. The same flap without advertising would cost $3.95. They are interested in learning about new sources.

Chesapeake Rim and Wheel
Essex, Maryland
Tel. (301) 866 3300
800 638 5419
This company is a distributor of mud flaps. It currently is purchasing 300 pairs or more per order of plain black flaps from a manufacturer at about $6.50 per pair.

Bay Rubber Company
404 Pendleton Way
Oakland, California 94621
Tel. (415) 635 9151
Fax (415) 430 9815
Contact: Craig Hansen
This company purchases $8,000 to $10,000 of plain unadvertised synthetic rubber mud flaps per year to sell to original equipment manufacturers. They purchase once a year and require an 8 week delivery time.

Distributors International Corporation
P.O. Box 158
Washingtonville, Pa. 17884
Tel. (717) 437 3141,
Fax (717) 437 3529
They carry 24 inch x 24 inch and 24 inch by 30 inch mud flaps, both with and without advertising. The advertising is for both them and the purchaser. They import only rubber flaps. They are interested in receiving information about new sources of mud flaps.

Williamsen Truck Equipment Corporation
1925 West Indiana Ave.
Salt Lake City, Utah 84126
Tel. (801) 975 0800
This company makes new trucks and trailers. They carry plastic and rubber flaps. They put their company's advertising on the flaps that they use on the trucks they build. They sell to government clients, which cannot by law have advertising on their mud flaps.

Buyer Products Co.
7702 Tyler Bolvd.
Mentor, Ohio 44064
Tel. 216-974-8888
Contact: Mark Saltzman, General Manager
This company is a manufacturer and distributor of mud flaps, as well as many other product lines to the smaller OEM and after-market. They address the customized order market segment. They would be interested in receiving information about molded rubber products, in particular tarp straps and automobile bumpers. They are not interested at this time in buying mud flaps.

Mitchell Rubber Products, Inc.
491 Wilson Way
City of Industry, California
Tel.: 818-961-9711
This company, if the price was right, would consider sourcing one of two lines of their product line, although previous proposals they have received have not been competitive in regard to price.

Truck Equipment Service Co.
800 Oak
Lincoln, Nebraska 68521
Contact: John Yelden
Their custom mud flaps average orders are 100 to 250 pair. They would be interested in receiving information about new sources of mud flaps and would be willing to receive a sample of 10 or 15 flaps.

c. Import Duties

Guatemala is a beneficiary country of both the Generalized System of Preferences (GSP) and the Caribbean Basin Economic Recovery Act (CBI). As a result, mud flaps, and related motor vehicle accessories would be imported free of duty. This gives Guatemala an advantage over non-GSP and non-CBI beneficiary countries, most of which must pay an average duty of 3.1% on the landed value. Since most or all of the prime material is available locally in Guatemala, it should have no problem in meeting the provisions of the CBI. U.S. Customs will require a completed Certificate of Origin-Form A at the point of entry. The Harmonized Tariff Schedule Number for the product category is 8708.70.80.50.5.

IV. Outline of Export Strategy

The key to being able to enter either the OEM market of the "aftermarket" is competitive pricing. Consideration could be given to designing a unique anti-spray mud flap and to developing a broader line of products for the U.S. auto and truck parts suppliers. It is suggested that Guatemalan manufacturers seek guidance and technical assistance from U.S. market experts to develop their ideas.

It would be logical to target the smaller scale OEMs, particularly the trailer manufacturers, and the larger "aftermarket" suppliers to secure relatively large order (container loads) for mud flaps printed with advertising.

Guatemalan manufacturers have advantages of inexpensive labor, ready access to raw materials, and existing "know how". These advantages must be supplied to produce in a highly efficient manner.

V. Trade Associations, Publications, and Shows

a. Trade Associations and Principal Trade Show

The business is serviced by many regional trade shows. The National Truck Equipment Association has an annual convention and exhibition where more than 200 truck body, truck equipment and truck

accessory manufacturers and suppliers have reserved display space. Information can be obtained by writing to:

National Truck Equipment Association
38705 Seven Mile Road, Suite 345
Livonia, Michigan 48152
Tel. (313) 462 2190

b. Principal Trade Publications

Some potential trade publications for technical and product infromation include:

Trucks Magazine Inc.
20 Waterside Plaza
New York, New York 10010-2615

Truck Engineering
Society of Automotive Engineers
400 Commonwealth Drive
Warrendale, Pa. 15096-0001

Trucks USA
Randall Publishing Co.
P.O. Box 3168
Tuscaloosa

c. Consultants

The following rubber industry consulants have worked in the production, marketing, and adminstration of companies that produce mud flaps and are available to provide technical assistance.

Mr. John Turner
Route 3 Box 3439 D
Boerne, Texas 78006
Tel. (512) 698 3465

Mr. George Thursby
3603 Hunters Cliff
San Antonio, Texas 78230
Tel. (512) 492 6248

The following rubber industry recruitment agencies can provide consultants on the marketing of rubber flaps.

Rubber Search
Tel. (913) 286 1191

Rubber Plastics and Chemical Opportunities
Tel. (216) 867 1199

Appendix A

Mud Flaps: Market Expert/Buyer

The following individual has been invited to travel to Guatemala to meet with Guatemalan producers to review their production capabilities and advise them regarding the potential for importing fabricated rubber products from Guatemala into the United States.

Mr. John Turner is a retired executive from the General Tire International company where he held various high level management positions. General Tire is a manufacturer of tires, tubes and other industrial rubber products and has annual sales in excess of US$ 2 billion.

Mr. Turner worked for General Tire as well as Firestone Tire and Rubber Company and has a total of 18 year of experience working overseas, including work in Ghana, Costa Rica, Brazil, Argentina, the Netherlands, Iran, Morocco, Ecuador, and Mexico.

He has been responsible for importing tires and related products into the United States as well as procuring production equipment and raw materials for plants outside the United States.

GUATEMALA: PRODUCTS & MARKETS FOR EXPORT GROWTH

FINAL REPORT

MARKET PROFILE: PLASTIC BINS AND CONTAINERS FOR MATERIALS HANDLING

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID / Guatemala*
and
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MARKET PROFILE:

PLASTIC BINS AND CONTAINERS FOR MATERIALS HANDLING

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PLASTIC BINS AND CONTAINERS FOR MATERIALS HANDLING

I. Product and Industry Overview

a. Plastic Bins and Containers

Materials handling containers are box shaped and are used for the movement of finished or semi-finished goods, either during the manufacturing process, for final shipment of goods, or in both stages of the process. Materials handling bins are used in almost all industries for the conveyance of products that can be more efficiently moved or stored in the manufacturing environment with the use of a container. For instance, while an automobile on the assembly line would not be moved in a container, the component parts to be attached to it at each stage of production may well be. The containers may have lids, side doors, or handles. They may be stacked and are available in a wide array of colors for color coding purposes.

The materials handling industry can be defined as one that provides goods and services to companies who pursue better movement, storage control, and protection of materials. The industry has seen strong growth over the past decades in response to increased demands for efficiency and increasingly precise timing requirements for the delivery of goods. Some systems are very sophisticated, using machine ("artificial") intelligence to retrieve inventory, move products through the manufacturing process and pack shipping containers. At the other end of the spectrum are manual systems where all of the above functions are performed by hand labor. At intermediate levels of sophistication are mechanized and automated handling. Mechanized handling uses conveyors, industrial trucks, monorails, and overhead cranes.

Technologies in automated handling include automated guided vehicles, automated storage and retrieval systems, robots, and automatic identification systems. Nevertheless, each of these levels of technology incorporates the use of containers. Often factories will use a combination of manual and machine handling of materials; therefore bins used in a single factory must be suitable for both purposes.

Containers used in materials handling may be made of wood, steel, corrugated paper, aluminum, plastic, or a combination of several of the above. This profile will only address the market for containers made entirely or partially of plastic. The reasons for this are twofold. First, the market for plastic bins has grown significantly, with plastic bins replacing bins made of other materials for a wide array of uses. Main reasons cited for the advantages of plastic bins include excellent damage protection and low cost. Second, the Guatemalan industry has productive capabilities which may enable it to compete successfully in the US in the market area.

Materials handling bins, often referred to as "totes" by the industry are handled by workers and moved from work station to work station manually or along automated conveyors during the manufacturing process. They are made of durable materials and are designed to be reusable. Containers are also used for shipment of completed goods and are returned for re-use.

Bins are made in a variety of shapes and sizes. The base of the bin is referred to as its "foot print". Some are only a few inches high and wide while others are several feet tall and capable of holding over a thousand pounds of weight. Sample sizes range from 4" x 6" x 4" to 2' x 3' x 3'.

Often, because of the design of conveyors or in an effort to simplify packing during shipping, factories will use bins of different sizes that have the same "foot print" or base. Bins may also be designed to fit neatly into other containers, such as storage carts or shipping containers. Materials handling bins are designed to suit a manufacturer's particular needs. Thus bins may possess any or all of the following special characteristics:

- handles
- textured bottoms (for better grip of a conveyor)
- recessed corners (for labels or bar coding systems)
- stackable (up to several tiers high)
- side doors (for access to materials if bins are stacked)
- array of colors per model
- high strength— resistance to columnar crushing
- resistance to extremes of temperature
- hinged or snap on lids
- special linings (e.g. static dissipative lining for electronics manufacturers)
- may be stored in nested configuration

b. Production of Plastic Materials Handling Bins

In general, plastic materials handling bins are made using plastic injection or vacuum molding. Some U.S. manufacturers have found ways to fold plastic sheets into bins by cutting the plastic sheet and sealing the seams. Other bins are made of a combination of extruded aluminum tubing and panels of plastic.

The injection and vacuum molding machinery needed for the execution of these processes are expensive. Raw materials for the manufacture of plastic are imported by Guatemalan manufacturers from Germany, the United States and other industrial countries.

In addition to the basic machinery, manufacturers must have the ability to design and engineer a variety of shapes and sizes of plastic bins. Furthermore, manufacturers must understand how to control product consistency as well as certain properties such as the strength and heat

resistance and anti-static properties of the final product. Materials such as polyethylene and polypropylene are often used to make the bins.

The vast majority of U.S. manufacturers mass produce these bins in highly automated facilities. In such product lines, labor content is low and there is little flexibility is design configuration. Manufacturers produce and sell fixed types of product lines. In order to produce a bin to a certain specification, i.e., customize the order, most manufacturers charge prices considered extremely high by most buyers. One of the reason cited for the high price is that it is estimated to cost between US$175,000 to $200,000 to re-tool a production process for a different specification. In addition, an average run ranges from 5,000 to 30,000 bins. Manufacturers use this argument of the high price of custom-made bins to convince customers to purchase products from their existing product lines.

While bins used to be considered a commodity product whose qualities received little attention, manufacturing and operations engineers of companies are devoting increasing attention to the exact type of bin to suit their needs. Companies will now evaluate all aspects of manufacturing, storage, and shipping as well as the requirements of manual laborers and of handling machinery to recommend the best type of tote to suit their precise purposes. They will then survey the availability of this type of bin by suppliers. Given the constraints imposed on them by manufacturers of mass-produced bins, they generally end up with a product that is, at best, close to but not exactly what they want.

As the materials handling needs of companies may be highly complex, an industry of materials handling consultants has grown in the U.S. These firms evaluate a factory's needs, design a system, then take responsibility for obtaining and installing the system in the factory. Often, the consultants are producers of materials handling equipment themselves. The custom designs they develop for factories has generated an increased demand for custom manufactured plastic totes. As a result, some manufacturers are looking at ways of reducing the costs of customized products. However, of those surveyed, most say that a volume of 1000 or higher is necessary before they will deviate from their standard product lines.

c. Materials Handling Industry Outlook

Materials handling industry economists have forecasted that U.S. companies will devote 76% of their capital spending to equipment purchases in 1990, compared with 64% in 1980. The emphasis of the U.S. industrial sector is on improving efficiency rather than building new factory space. The vast majority (62%) of new materials handling purchases will be to modernize existing facilities. An estimated 47% of purchases will be to replace older equipment and systems already in place. A further 31% of new purchases will be due to expansion. Only 12% of purchases will be for a new facility. According to industry specialists,

corporate size does not affect these reasons for buying new materials handling equipment.

A survey sponsored by *Modern Materials Handling* magazine sent to 46,191 companies, accounting for over 80% of all materials handling purchases, revealed that an average of $710,000 will be spent by each of these companies in 1990. Companies with fewer than 500 employees will spend an average of $500,000 on materials handling equipment in 1990. Those with 1,000 employees or more will spend almost $2 million. Over half of the respondent firms plan to buy more storage equipment than any other type of equipment. Work in progress (assembly line) areas were mentioned most as the areas targeted for greatest improvement in the coming decade. Total spending in materials handling in the U.S. will exceed $32 billion in 1990. Plastic containers should account for approximately $1 billion of that total.

The most commonly cited reason for the explosive growth of the materials handling industry is the advent of "just-in-time" requirements by major manufacturers. "Just-in-time," or JIT, is a process pioneered by the automotive industry whereby a major manufacturer will require that deliveries of materials or component parts be made just before they are to be used. In order to avoid being saddled with overly large inventories of products waiting to be shipped, suppliers have been forced to refine their production timing. This, in turn, leads to the need for more systematic materials handling methods in order to provide manufacturers greater control over the time involved in various stages of the manufacturing and storage retrieval processes.

There are over 80 manufacturers of plastic and reinforced plastic bins in the United States. About half of these companies also manufacturer reusable plastic pallets. As was stated earlier, most of these companies cannot cost effectively make a custom designed bin. Thus, is it difficult to determine the market potential for custom bins because much of the demand in the U.S. is unfulfilled.

Plastic bins are also imported. However, this does not account for more than 10% of total shipments. Most of these imports are from Asia. No companies from Asia were found to be doing customized bins during the course of this study.

II. The Market

a. Demand for Custom Materials Handling Bins

While plastic bins purchases are estimated to be about $1 billion, it is difficult to determine what the demand for custom plastic bins would be as much of this demand is unfulfilled. Materials handling industry experts agree that there is "a good amount" of interest in custom designed bins and that the main constraint to their proliferation has been price. The experts

also indicate that there is a strong demand for small, customized orders, in the 500 bin range.

b. Main Market Segments

As was mentioned earlier, 46,191 companies make 80% of all materials handling equipment purchases in the US. These firms are both manufacturing and non-manufacturing firms. Non-manufacturing firms account for about 25% of the total and include distribution companies with materials handling requirements of their own and industry consultants.

c. Major Factors in the Buying Decision

The key purchasing criteria for bins are the characteristics, quality and price of the product. Since they will be used for a relatively long time, durability is an important factor. However, this varies between companies.

d. Pricing Considerations

Prices for bins vary in relation to the price of raw materials, in particular polyethylene, and specifications which have to met, such as strength, size, blend of plastics used, etc. High technology bins, requiring special materials, retail from US$20.00 at the low end to US$38.00 at the high end. Regular injection molded bins, with few special characteristics, retail from US$3.00 at the low end to US$10.00 at the high end.

III. Distribution Channels

a. How does the Product Reach the End User

Non-custom bins are generally sold through catalogs. Manufacturers can order bins directly from catalogs with little contact with a sales representative. However, a recent study of purchasing in the industry showed that more than 50% of the companies surveyed used project teams, with an average of 5 members, to make materials handling purchasing decisions. This reflects the increased importance of materials handling systems to companies. Furthermore, only 39% of materials handling purchases were made through the purchasing departments of companies. Meanwhile, 75% of purchases involve plant and production management, and 65% involve plant maintenance and operations personnel.

The average size of an order ranges from a few hundred to a few thousand bins, depending on the size of the company or manufacturing facility. Generally, a company will purchase almost all of the bins it needs at one time, then order replacements as needed.

Over half of materials handling bins are purchased directly by the manufacturer who will use them. In manufacturing firms, the key contact

person is the production or plant manager or the operations engineer. This is particularly true when attempting to sell customized products, as it is important to contact someone who understands the factory's needs and will perceive value in a customized product designed specifically to meet those needs.

Other contacts who purchase bins are material handling consultants. There are over 100 such consultants in the U.S. who sell goods and services to US industry.

b. Key Players in the Materials Handling Industry

A representative sampling of key players in the industry, which potentially could be approached as marketing partners, include:

LewiSystems (one of the largest bin manufacturers)
128 Hospital Drive
Watertown, Wisconsin 53094
(414)-261-4030
(800)-558-8563

Olympic Plastics (also one of the largest)
5800 West Jefferson Blvd.
Los Angeles, California 90016
(213)-837-5321

Xytec
9350 47th Ave., S.W.
P.O. Box 99057
Tacoma, Washington 98499
(206)-582-0644

Menasha Corporation
Molded Plastic Division
426 Montgomery Street
Watertown, Wisconsin 53094
(414)-261-3162

Stackbin Corporation
Albion Road
Lincoln, Rhode Island 02865

Symbiote (has a strategic marketing alliance with Herman Miller, a major international office furniture manufacturer)
276 West 13th
Holland, Michigan 49423
(800) 283-2434

It is recommended that interested Guatemalan manufacturers should contact the Director or Vice-President of Sales in each of these firms. In addition, linking with an industry consultant would be another appropriate means of entering the customized bin market.

c. Special Handling Considerations

Many companies are innovative in their use of plastic containers. For instance, Sheller-Globe, an automotive parts supplier, recently implemented a returnable container program. The company bought a mix of returnable containers made of high-density polyethylene structural foam. When empty, some models fold down to one-third their original size. Others nest three in the size of one. The collapsible containers measure 48 x 45 x 34 inches. The modular containers fit the 48 x 45 inch footprint in multiples of two, four or eight. The larger collapsible containers have a drop-down side door for access when stacked. Before deciding on the design for these containers, Sheller-Globe surveyed each of its 22 primary suppliers. All of the containers were purchased at the same time. Since then, Ford and Chrysler have purchased the same containers as Sheller-Globe to ship finished products to their plants. These containers were all supplied by Xytec, a major player in the materials handling industry.

Another company, Advanced Transformer Company, insists that bins be able to withstand temperatures of 120°F, be fiber-glass reinforced, and measure 7 feet tall. The company ships aluminum and copper coils from a plant in Juarez, Mexico to its operations in Wisconsin. Menasha Corporation supplies these containers.

A simpler materials handling solution was employed by Best Way Tools, Inc., a manufacturer of screw drivers. The firm found that the cartons they used could not be stacked more than two tiers high on their shelving units because of the weight of the contents. The firm purchased about 10,000 color-coded, steel-reinforced plastic bins, capable of holding up to 100 pounds each. More important, up to 1,000 pounds of materials can be stacked on top of each bin without crushing it. These bins have openings at the sides for access to contents when the bins are stacked. The bins measure 12" wide x 20.5" long x 9.5" wide. These are made by Stackbin Corp.

Sun Microsystems developed a custom designed bin to suit an electronic manufacturer's specific needs. The firm requested a container made of extruded aluminum frame with sides of polypropylene sheet. A static dissipative polyethylene film cradles the printed circuit boards. Each container is designed to carry one to seven circuit boards, and also fits in the companies existing storage carousels. The company obtained these bins from Kenflex Corp.

d. Import Duties

Guatemala is a beneficiary country of both the Generalized System of Preferences (GSP) and the Caribbean Basin Economic Recovery Act (CBI). As a result, plastic materials handling bins would be imported free of duty. This gives Guatemala an advantage over non-GSP and Non-CBI beneficiary countries, which would have to pay an average duty of 3% on the landed value. Guatemala would have to ensure that it was meeting the conditions of the CBI provisions, in particular, that the direct processing costs of the product total at least 35% of the bin's custom value. This is especially critical since Guatemala imports 100% of the raw materials for plastic products, primarily from the U.S. For specific information regarding this provision and similar conditions for importing into the United States, see Appendix A of Volume 1 of the Project Overview Document.

The U.S. Customs will require a properly completed Certificate of Origin-Form A at the point of entry. The Harmonized Tariff Schedule Number of the product category is 3923.10.00.00.6. The measuring unit for reporting on the export documentation forms is the gross weight of the shipment.

e. Transportation Considerations

Consideration should be given to designing bins which can be nested within other bins, thereby allowing greater number of units to be shipped within one container, and reducing the per-unit transportation costs.

IV. Recommended Export Strategy

The Guatemalan industry will be able to achieve the best results by targeting the market for custom bins. Before attempting to sell any such product, however, the interested Guatemalan manufacturers should obtain a representative bin from a major U.S. manufacturer and make sure that they can make a comparable product in terms of:

- design
- strength
- quality control
- heat/temperature requirements
- costs
- other features

Manufacturers should determine a realistic time frame for the production of a new mold for a bin. Once they have determined all of the above, manufacturers should begin to contact buyers in the U.S. Materials handling consultants appear to be the most open to new suppliers and the most aware of the advantages of customized products. Furthermore, these firms have extensive contacts in the industry and can sell the bins to the factories. Of primary importance in doing customized work will be

communication. Suppliers must be able to convince purchasers that they can fully comprehend and execute custom design requirements while manufacturing in Guatemala.

An alternative approach would be to contact other plastic bin manufacturers who are unable to achieve cost-effective, customized bin production. These firms may be willing to source occasional jobs from outside suppliers. One of the larger bin manufacturers did indicate they would consider sourcing part of their product line in an off-shore location. However, they specified they would require information on the manufacturer's capability, experience, background on the principles, application experience, and mold and injection methods utilized, before meeting with potential suppliers. It is probable that most bin manufacturers would require similar information before discussing off-shore manufacturing of their product lines.

Other means of learning about the industry include attending trade shows and reading trade publications. Trade shows in particular are considered very important, both for meeting the key players, as well as for learning about new technologies and new product development.

Some principal trade shows are:

- *Logistex* -- held annually, with one organized for the East Coast, a second for the West Coast. Logistex - 90 - East will be held May 16-18, 1990 in Atlanta, Georgia, at the Georgia World Congress Center. Logistex - 90 - West was held April 24-26, 1990, in Los Angeles, California, at the Los Angeles Convention Center. Logistex is the largest trade show for materials handling, and most major companies exhibit at this shows.

- *Promat* -- is also held annually. It is an important, although smaller trade show. Promat 91 will be held February 18-21, 1991, in Chicago, Illinois, at the McCormick Place North.

Both of the above trade shows are organized by the Materials Handling Institute, the key industry association. Their address, and person to contact for information, is:

Lesley A. M. Heidenreich
Manager of Marketing Communications
Materials Handling Institute
8720 Red Oak Blvd., Suite 201
Charlotte, North Carolina 28217
(704)-522-8644

This association provides members with market information, technical assistance, and industry contacts. They also produce an assortment of literature on the industry, including a monthly newsletter.

Appendix A

To obtain the telephone number for U.S. companies listed by city and state, locate the state and city on the area code table below and dial the corresponding area code + 555 1212 and give the name of the company and city to the operator. In the case that the city is not listed in the table below, call any of the area codes corresponding to the company's state + 555 1212 and the operator can provide the correct area code to dial for further information.

place	area code
Alabama	
all locations	205
Alaska	
all locations	907
Arizona	
all locations	602
Arkansas	
all locations	501
Bahamas	
all locations	809
Bermuda	
all locations	809
California	
Anaheim	714
Bakersfield	805
Burbank	818
Huntington Beach	714
Long Beach	213
Los Angeles	213
Riverside	714
Sacramento	916
San Diego	619
San Fernando	818
San Francisco	415
San Jose	408
Santa Ana	714
Van Nuys	818
Canada	
London, Ont.	519
Montreal, Quebec	514
North Bay, Ont.	705
Ottawa, Ont.	613
Quebec, Quebec	418
Thunder Bay, Ont.	807
Toronto, Ont.	416
Trois Rivieres, Quebec	819
Val d' Or, Quebec	819
Colorado	
Aspen	303
Boulder	303
Colorado Springs	719
Denver	303
Pueblo	719
Vail	303
Connecticut	
all locations	203
Delaware	
all locations	302
District of Columbia	
Washington	202

place	area code
Florida	
Boca Raton	407
Ft. Lauderdale	305
Hialeah	305
Hollywood	305
Jacksonville	904
Key West	305
Miami	305
St. Petersburg	813
Orlando	407
Tampa	813
Tallahassee	904
West Palm Beach	407
Georgia	
Atlanta	404
Columbus	404
Macon	912
Rome	404
Savannah	912
Waycross	912
Hawaii	
all locations	808
Idaho	
all locations	208
Illinois	
Alton	618
Aurora	312
Cairo	618
Casey	217
Chicago	312
Decatur	217
Elgin	312
Highland Park	312
La Grange	312
La Salle	815
Mt. Vernon	618
Peoria	309
Rockford	815
Springfield	217
Indiana	
Evansville	812
Fort Wayne	219
Gary	219
Hammond	219
Indianapolis	317
Kokomo	317
Michigan City	219
South Bend	219
Iowa	
Cedar Rapids	319
Council Bluffs	712
Davenport	319
Des Moines	515
Dubuque	319
Mason City	515
Sioux City	712
Kansas	
Dodge City	316

place	area code
Kansas City	913
Ottawa	913
Topeka	913
Wichita	316
Kentucky	
Ashland	606
Dade Park	812
Frankfort	502
Lexington-Fayette	606
Louisville	502
Shelbyville	502
Winchester	606
Louisiana	
Baton Rouge	504
Lake Charles	318
New Orleans	504
Shreveport	318
Maine	
all locations	207
Maryland	
all locations	301
Massachusetts	
Boston	617
Framingham	508
New Bedford	617
Plymouth	508
Springfield	413
Worcester	617
Michigan	
Adrian	517
Ann Arbor	313
Battle Creek	616
Detroit	313
Escanaba	906
Flint	313
Grand Rapids	616
Jackson	517
Kalamazoo	616
Lansing	517
Livonia	313
Monroe	313
Saginaw	517
Sault Ste. Marie	906
Sterling Heights	313
Warren	313
Minnesota	
Albert Lea	507
Claremont	507
Duluth	218
Minneapolis	612
Rochester	507
St. Paul	612
Mississippi	
all locations	601
Missouri	
Independence	816
Jefferson City	314
Joplin	417
Kansas City	816

place	area code
St. Joseph	816
St. Louis	314
Springfield	417
Montana	
all locations	406
Nebraska	
Abbott	308
Lincoln	402
North Platte	308
Omaha	402
Nevada	
all locations	702
New Hampshire	
all locations	603
New Jersey	
Atlantic City	609
Camden	609
Elizabeth	201
Hackensack	201
Jersey City	201
Newark	201
Paterson	201
Trenton	609
New Mexico	
all locations	505
New York	
Albany	518
Babylon	516
Binghamton	607
Buffalo	716
Elmira	607
Greenwich	518
Hempstead	516
Monroe	914
Mt. Vernon	914
New York City	
Bronx	212
Brooklyn	718
Kennedy Int'l Airport	718
La Guardia Airport	718
Manhattan	212
Queens	718
Staten Island	718
Niagara Falls	716
Peekskill	914
Poughkeepsie	914
Rochester	716
Schenectady	518
Stamford	607
Syracuse	315
Troy	518
Utica	315
White Plains	914
Yonkers	914
North Carolina	
Charlotte	704
Durham	919
Greensboro	919
Raleigh	919

place	area code
Winston-Salem	919
North Dakota	
all locations	701
Ohio	
Akron	216
Alliance	216
Canton	216
Cincinnati	513
Cleveland	216
Columbus	614
Dayton	513
East Liverpool	216
East Palestine	216
Girard	216
Lodi	216
Lorain	216
Marietta	614
Massillon	216
Newark	614
Niles	216
Ravenna	216
Salem	216
Steubenville	614
Toledo	419
Youngstown	216
Zanesville	614
Oklahoma	
Muskogee	918
Oklahoma City	405
Tulsa	918
Oregon	
all locations	503
Pennsylvania	
Allentown	215
Altoona	814
Chester	215
Erie	814
Harrisburg	717
Hershey	717
Johnstown	814
Paoli	215
Philadelphia	215
Pittsburgh	412
Punxsutawney	814
Reading	215
Scranton	717
Swarthmore	215
Upper Darby	215
Valley Forge	215
West Chester	215
Wilkes-Barre	717
Puerto Rico	
all locations	809
Rhode Island	
all locations	401
South Carolina	
all locations	803
South Dakota	
all locations	605

place	area code
Tennessee	
Chattanooga	615
Knoxville	615
Memphis	901
Nashville	615
Texas	
Amarillo	806
Arlington	817
Austin	512
Beaumont	409
Corpus Christi	512
Dallas	214
El Paso	915
Fort Worth	817
Garland	214
Houston	713
Irving	214
Lubbock	806
Pasadena	713
San Antonio	512
Waco	817
Utah	
all locations	801
Vermont	
all locations	802
Virgin Islands	
all locations	809
Virginia	
Alexandria	703
Chesapeake	804
Hampton	804
Newport News	804
Norfolk	804
Portsmouth	804
Richmond	804
Roanoke	703
Virginia Beach	804
Winchester	703
Washington	
Olympia	206
Pullman	509
Seattle	206
Spokane	509
Tacoma	206
Vancouver	206
Walla Walla	509
West Virginia	
all locations	304
Wisconsin	
Bay City	715
Beloit	608
Madison	608
Milwaukee	414
Wyoming	
all locations	307

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GUATEMALA: PRODUCTS & MARKETS FOR EXPORT GROWTH

FINAL REPORT

MARKET PROFILE: SADDLES

Bureau for Private Enterprise
U.S. Agency for International Development

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MARKET PROFILE:

SADDLES

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SADDLES

I. The Product, its Production, and Industrial Outlook

a. Saddles

Saddles come in many shapes, sizes, even colors. Saddles are designed specifically for the purpose for which they will be used, whether it is riding, showing, jumping, dressage, or playing an equestrian sport, such as polo. A saddle is primarily made of leather, with some components, such as the tree and horn, made with wood or fiberglass. Trimmings, stirrups, boots, and other components of a saddle often include metal, from iron and steel at the lower end to gold and silver at the upper end of the product line. A typical saddle consists of a seat, padded or un-padded, a tree or frame, dee rigging, fenders, and stirrups. If it is a western saddle it will have a horn, usually made of wood or steel, and covered in rawhide. English-style saddles do not have horns.

In the United States, saddles are classified into two main categories: the Western Saddle, and the English or English-style Saddle. The main difference between the two, as explained above, is that western saddles have horns, while English saddles do not. In addition, the western saddle is viewed as the more common, everyday-use saddle; the English saddle is used for showing, jumping, and special activities. Within each category, there are several varieties of saddles, depending on the purpose of use. As the following demonstrates, the use of the particular saddle has an impact on its design and minimal standards which must be met in their production.

For example, within the western saddle category, there is the Cutting Saddle, one of the first "specialty" western saddles, designed to facilitate a rider's control of the horse as they practice the sport of cutting. In cutting, the horse and rider are judged on their capability to separate or "cutting" individual calves, cows or steers from a herd. A cutting saddle allows the rider to subtly shift forward and back in the saddle, helping the rider and the horse maintain their balance. For this reason, cutting saddles are designed with flatter seats. A typical cutting saddle has a tall, thin, vertical or slightly pitched horn and swell, usually covered in rawhide for easier wear on the hands, and with small caps for easy grasping. It has a smooth leather seat, usually un-padded, although preferences vary between padded and un-padded. Most cutter saddles come with a full drop double dee rigging, skirt and fenders. Usually, matching accessories are also included. Most saddle manufacturers will carry at least one cutting saddle style.

Show saddles, on the other hand, are designed for just that, to show. As a result, they are usually hand-made, with expensive trimming. A

typical show saddle has a rawhide covered tree, 15 1/2 inch seat, gold or silver trim, hand tooling, reduced slat pelican horn, latigo lining on fenders and jockeys, leather conchos, and leather reinforced stirrup straps. The average retail price is US$2,000-4,000. Most saddle makers are intent on breaking into the show saddle market, and sales are currently strong.

English-style saddles are considered to be the preferred saddle of the weekend, more affluent rider, and the quality of the leather used in its construction is a critical factor. Most customers expect retailers to fit the saddle to both the horse and the rider. As a result, the English-styled saddle is currently going through a period of innovative refinement. Models are being designed specifically for women, since the female skeletal arrangement for sitting is entirely different from that of the male. Most English saddles are designed to carefully contour in the twist and seat to distribute the rider's weight evenly across the panels. Some of the saddles now have a fiberglass reinforced laminated tree (no steel), kapoc panels, setback stirrup bars, cutback head, etc. The jumping saddle is designed for durability with a tree which distributes the stress of jumping more evenly and keeps it from spreading.

b. Production of Saddles

The principal materials used in saddle making are leather, wood or fiberglass for the horn, laminated wood or steel for the stirrups, and some form of metal for the attachments. Saddle making is a very labor intensive production process, particularly at the higher ends of the market, where custom-made saddles are the requirement. Lower end saddles can be produced in a stream-lined production process, and the sewing is done by machines. However, every step of the production process involves human intervention, from putting on the seat of the saddle, to tooling, to attaching the stirrups. In essence, every saddle that comes out of a saddle factory is handmade.

Even in the custom, handmade saddle category, usually more than one person will be responsible for putting the saddle together.

Synthetic saddles have recently made their entrance into the saddle market, primarily at the lower end of the market. Some models are made with nylon-reinforced Cordura, while others are made entirely with neoprene (no nylon fabric). Several models have futuristic design elements, are completely water resistant, and come in an array of colors, including fluorescent. The primary advantage of a synthetic saddle is its low maintenance features. Sales of the synthetic saddles have been predominantly to the weekend rider or beginning rider. Also, riding schools are beginning to use them because they are easier to maintain. In general, the industry views synthetic saddles not as a replacement for leather saddles, but rather as an addition to them.

Quality, design and styling are critical elements in the production and marketing of saddles. Styling trends indicate that applications and fancier tooling are becoming the norm. The dominant colors for saddles in most regions of the U.S. remain the light to medium oil-color versions in the upper end saddles. Young riders and new entrants to the market tend to choose darker colors at the low and moderate price ranges.

The quality of the leather is an important factor in both the production and eventual sale success of a saddle. English saddlery tends to be made with European leather, whether from England or Germany. However, recent imports, for example the Australian and Argentine saddles, have been successful primarily because of the quality of construction and materials. In addition, new models are being added to existing lines, with innovative refinements to the basic saddle designs.

c. Saddle Industry Outlook

Saddles are classified under SIC code 3199, entitled Leather Goods, not elsewhere classified (NEC). This industry is made up of establishments primarily engaged in the manufacturing of saddles, saddlery harnesses, whips, embossed leather goods, leather desk sets, and industrial leather belting. The overall industry employed 7.1 thousand individuals in 1987, up 1% from that reported in 1982. There are approximately 30 large U.S. saddle manufacturing companies in the industry.

In general, the U.S. saddle business is viewed as healthy, with demand at least remaining steady for most items in the product lines. Saddle dealers sold more saddles in 1989 than during the previous two years, and 1990 is viewed as a good year for the industry. The western saddle industry in the United States is viewed as highly developed, competitive, and difficult to crack, at least at the low end of the market. However, there is opportunity for quality products that can be produced at a competitive price.

The western saddle industry has experienced some realignments in both the market and the industry. While none of the major players have disappeared, several have come under new management. There is an increase in the number of retailers stocking western saddles and tack. Saddle prices, in general, are up two to five percent, and there is growing interest in better quality, even fancier saddles, i.e., more expensive equipment. The demand for low-end western saddles, by entry-level saddle customers, continues unabated.

The English-styled saddle industry is experiencing a period of growth after several years of reduced sales and price increases. However, some key players in the market have been forced out because of higher costs and low margins.

Both segments of the industry are experiencing rising costs. One factor for the increase is the escalating price of high-grade leather, primarily due to shortages worldwide in supply. Another culprit for the sharp price increases was the weak dollar, especially for saddles imported from England, Germany and Australia. Other culprits include higher costs of labor and materials. Even if the dollar becomes stronger, the general conclusion is that saddle prices will still edge up because of the cost of leather. The higher costs were generally passed on by the importer/distributors to the retailers. The cost of doing business in the industry has also gone up, primarily because greater inventories are being required, as well as service at the point of purchase.

Sales have been strong in certain regions of the U.S. The East Coast, Ohio, Michigan, Indiana, California, Oregon and Washington are viewed as the top markets for saddles and their accessories.

One of the reasons for continued growth in the saddle market is that manufacturers are beginning to listen to the needs of their customers -- namely the retailer, the distributor, and the end consumer. Manufacturers are increasingly producing saddles which meet the specifications provided by these customers. They are also beginning to pay greater attention to styling, with some manufacturers adding in-house silver shops and latigo tanning shops, thereby allowing them to up-grade their product. The moderate price saddle market has experienced lackluster demand, because design and styling, in addition to quality, have been low. However, recent indicators show that the manufacturers are beginning to improve the moderate priced saddle.

One trend noted in the industry is larger saddle dimensions -- bigger skirts, cantles, and pommels. Another trend is for fancier tack and tooled leather. Silver applications and fancier tooling on saddles are becoming common on both the higher and medium end of the product line.

One last trend reported in the industry is the growing demand for used saddles, reflecting the consumers interest in more moderately-priced merchandise. Retailers are still trying to figure out how to handle this shift. Primarily, people newly entering the equestrian sport are "shocked" by the prices for new saddles. Some are driven out of the market, while others look for alternatives in used equipment.

Imports play an important role in the English-style saddle market, with Germany and England the largest suppliers. Argentina, Pakistan and India are also important suppliers of imports, the first two at the medium priced and quality level, while India is at the low end, primarily because of low quality. Importers who have located reliable sources can offer good entry-level leather saddles, some made with English leather and English trees.

Imports are almost non-existent in the western saddle market, since the U.S. western saddle manufacturers are very competitive, both in quality and price. Mexico has been successful in exporting some western saddles into the U.S., although the quality is perceived as medium to low.

Australia is making in-roads into both the western and English-style saddle market. The Australian-style saddle is experiencing strong consumer demand, even though they have risen in price due to higher raw material costs. Asian-produced stock saddle sales are falling, primarily because the saddles are perceived as lower quality.

Overall, the main thrust in the saddle business is toward the better-to-top-quality goods, and most saddle manufacturers are intent on having a place in this market, because sales and demand are strong. Product and market knowledge are essential for successful sales. The retailers who pay attention to what they are selling, and who they are selling to, are the most successful retailers. Consumers are becoming educated about the saddle product, and are requiring technical and rleated information. Individual saddle vendors handle the responsibility of product knowledge differently. Some manufacturers will provide the retailer with information packets. Others rely on catalogs (information versus direct sales catalogs) to educate both the consumer and the retailer.

II. The Market

a. The Demand for Saddles and Main Market Segments

The demand for western saddles is as strong as it was in the mid- and late seventies, while demand for English style saddlery is showing signs of leveling out after several years of price increases and reduced sales volumes. Low end saddles are experiencing continuous demand.

Reliable statistics on the riding population do not exist. Some retailers do keep track of registration lists at local shows, beginning riding classes, stables opening and closing, and new and old customers. The market, in general is viewed as anything but static. However, it is believed that fewer persons are entering the equestrian sport in the nineties, which is worrying some manufacturers. On the other hand, saddlery shipments to dealers from the manufacturers have tripled in the last five years, both in units and sales dollars. Much of this growth is credited to the introduction of moderately-priced, good quality product lines. For some saddle retailers, increasing market share will be the only way to sell more saddles.

The demand for English saddlery is skewed to the upper end of the market, which is seeing an influx of new riders. The rising cost of horses, riding lessons, boarding horses, and equipment, point to new entries in the market as persons with ample incomes. They are often high-income professionals without dependent children or the children of well-to-do

parents. In general, the consumer is changing from a total focus on children and young girls to more of an affluent adult market.

A demographic and consumer profile survey of the members of the American Quarter Horse Association (AQHA) provided the following information regarding the market profile of consumers for western saddles:

Sex:	Male: 48%, average age of 46 Female: 52%, average age of 35
Education Level:	79% attended college or higher
Home Ownership:	84% own their own home, with 49.11 acres devoted to horse operation
Occupation:	52% professional, technical, managerial, administrative or owner 31% farming, ranching, or equine related 16% craftsmen and sales
Earned Income:	5% less than US$20,000 63% between US$20,000 and $59,999 22% between US$60,000 and $99,999 10% earned more than $100,000
Ave. income, before taxes:	US$57,883
Average net worth, per Household:	US$384,838
Lifestyle:	72% ride western only 2% ride English only 26% ride both western and English 74% consider they live a western lifestyle in clothes, music, etc.
Average Expend. for Western & English Apparel:	US$756
Total Expenditure for Western & English Apparel:	US$126,884,000
Average Expend. for Saddles, Tack and Equipment:	US$2,016
Total Expenditure for Saddles, Tack and Equipment:	US$338,181,000
Average Expend. for Western Saddles:	US$1,065
Total Expend. for Western Saddles:	US$80,354,000

b. Main Factors in the Buying Decision

At the medium and lower end of the saddle market, consumers are price conscious, and they shop around for the best deal. The buyer may or may not consider service, but price is almost always an important factor in the decision to buy a saddle. At the upper end, the purchaser is more concerned with quality than price, and will purchase for the specific purpose for which they will use the saddle. Because of the higher cost of horses, the upper end saddle purchaser is also more concerned with the performance of their equipment.

In addition, in the case of upper-end saddles, customers will expect retailers to help fit the saddle to both the horse and rider, i.e., they want to sit in, handle and test their saddles before purchasing them. They will also require some sort of product information, i.e., what are its characteristics, durability, manufacturing process, etc. Retailers are now demanding this product information from manufacturers.

Specialty saddle customers, such as cutters, are interested in endorsed or signature saddles, whereby a horse champion or key celebrity in the sport actually sign or endorse a product. In addition to serving as an enticement for the purchaser, it also represents a "seal of approval" in regard to quality, an important purchasing factor.

c. Pricing Considerations

Prices vary, depending on the quality of the saddle, the level of adornment and related styling considerations, the design and the purpose for which it will be used. An importer will generally mark-up the price of a saddle by at least 50% over the landed cost. By the time the saddle reaches the retailers, the price is at much as 2.5 times the landed cost. In the case of manufacturers, most sell to wholesalers and distributors at a 50% margin; rarely does the manufacturer sell direct to the retailer.

An average quality saddle will be purchased from a manufacturer at a price of US$40-50. If the saddle is more refined, it may sell as high as US$60. The Mexican medium quality saddle is currently bought from the manufacturer at about $85. A Guatemalan saddle manufacturer would have to produce at least a similar quality saddle at a better price in order to enter the saddle market. An English style saddle from India, on the other hand, is purchased for US$30-40 from the manufacturer and retails for $130 at the low end.

Discounting does occur, particularly in the catalog sales of saddles. Consumers can expect to pay up to $150 less by buying direct through a catalog, although they receive no service in the purchase which, in the case of higher priced items, is a factor in the purchasing decision. As a result of this fact, catalog distributors have seen increases in their prices recently

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because of the added service they must provide, as well as responding to the high return rate on catalog sales, reportedly as high as 60%.

A representative sampling of ranges of retail prices for specific saddles is provided below:

Western saddles:	US$375-1,000
English-style saddles:	US$300-2,000
Dressage Saddles, imported:	US$1,000-2,000
Custom, handmade saddle:	US$3,500 +
Moderate priced saddles:	US$800-1,500
Show Saddles:	US$1,500-4,000
Australian Saddles:	US$150- 500

The demand for higher end saddles is a positive one for retailers, since they net higher margins on the more expensive equipment sold. Furthermore, stores that stock the larger ticket items are the stores that are selling more, even though it is expensive to keep big ticket items in stock. Retailers who special order a saddle will sell the saddle for a small percentage over their costs. According to one major retailer of saddles, those who stock the items will generally sell more saddles on the spot since most saddle purchasers are impulse buyers.

III. Distribution Channels

a. How does the Product Reach the End User

The distribution of saddles, as well as saddlery accessories, is well defined. Manufacturers will sell their products through representatives and/or direct sales agents, to wholesalers and distributors. These wholesalers/distributors, through their own sales force, will sell to the retail outlets. Few manufacturers, if any, will sell direct to the retailer. Both distributors and manufacturers will import.

The size of an order varies depending on the level in the distribution chain, and the anticipated volume of sales. As mentioned above, retailers are responding to consumer expectations and service demands, particularly for higher priced saddles, by increasing their saddle inventories. This is also in response to growing competition from national catalogs, where saddles are bought direct by the consumer from a wholesaler, at a discounted price. Discounting has hurt the retailers in regard to reasonable margin on some of their more expensive items, although it has also resulted in larger turnovers and created more interest in saddles.

Trade shows play an important role in the distribution of saddles and related accessories. Purchase orders are made at trade shows, which also serve as a forum for gathering product information, analyzing the

competition, examining new technologies, and related information of import to current manufacturers.

b. Key Players in the Industry

A representative sampling of key players in the industry, which potentially could be approached as marketing partners, include:

The Action Company P.O. Box 528 McKinney, Texas, 75069 (214)-542-8700	Director of International Purchasing is Frank Motsenbocker

The Action Company also owns an interest in Tex Tan Western Leather, Saddlesmith and Simco, all of which are key players in the western saddle industry.

JT International 12607 Southeastern Ave. Indianapolis, Indiana 46529 (317)-863-6842	Bruce Watson, Sales Manager
Keyston Brothers 1501-T. Custer Ave, San Francisco, CA. (702)-359-8884	Bob Thomas, Purchasing Manager
B.T. Crump Company, Inc. P.O. Box 1597 Richmond, VA. 23213 (804)-649-3601	Tom Portodese, Import Manager
Kauffman & Sons Saddlery Company 139-141 E. 24th Street New York, N.Y. 10010 (212)-684-6060	Mr. Kauffman, Purchasing Manager
Whitman Saddle Manufacturing 4415 "B" Drive South Battle Creek, Michigan 49017 (616)-979-1231	Melvin E. Norman, President

c. Special Handling Considerations

As mentioned above, end consumers of saddles are requiring greater technical and sales information, primarily on the manufacturing process involved in the production of the saddle, the types of materials used, as well

as how the product can best be used and maintained. Most retailers require that this product information be provided by the manufacturer or the distributor. According to one retailer, information is the best tool available to clinch a sale. Without it, even the best product will not sell.

d. Import Duties

Guatemala is a beneficiary country of both the Generalized System of Preferences (GSP) and the Caribbean Basin Economic Recovery Act (CBI). As a result, saddles and related accessories would be imported free of duty. This gives Guatemala an advantage over non-GSP and non-CBI beneficiary countries, which would have to pay an average duty of 4.2% on the landed value. If Guatemala imported the leather and related articles for the saddle's manufacturing, it will have to ensure that it is meeting the conditions of the CBI provisions, in particular, that the direct processing costs of the product add up to at least 35% of the saddle's U.S. customs value. For specific information regarding this provision and similar conditions for importing into the United States, see Appendix A of Volume 1 of the Project Overview Document.

The U.S. Customs will require a properly completed Certificate of Origin-Form A at the point of entry. The Harmonized Tariff Schedule Number of the product category is 4201.00.60.00.6. The measuring unit for reporting on the export documentation forms is the gross weight of the shipment.

IV. Recommended Export Strategy

The saddle manufacturing and/or import/distributing companies that were contacted during the research phase of this project all expressed some level of interest in at least receiving additional information about Guatemala's capability to produce a quality saddle at an competitive price. Most would first require an inspection of the product prior to initiating discussions. None were able to travel to Guatemala at this time.

One manufacturer indicated they would be willing to pay US$40-50 for an average saddle, as long as it was distinct in styling and design from those currently being produced in the United States. A minimal order, if conditions were met, would be US$100,000. Design and technical guidance would be provided by the marketing partner. Quality, styling and price are critical factors which must be met for the product to be acceptable to the distribution channel.

Most manufacturers were also interested in related accessory products to saddles, such as wool horse blankets, braided horse straps, whips, hand engraved, silver ornaments, halters, etc. Guatemala should consider producing these items together with the saddles. A range in style of saddles is also recommended, since the longer the product line, the

greater the level of interest. However, quality is key. Several manufacturers contacted have not had positive experiences in CBI countries, and were therefore somewhat hesitant to consider Guatemala, particuarly given that few were even aware that Guatemala produces saddles. Therefore, an interested Guatemalan saddle manufacturer's primary concern should be to design and manufacture the highest quality saddle they can, and initially sell it to import/distributors at a very competitive price. Reliability of shipment and compliance to due dates also will have to be strictly adhered to.

Trade shows play an important role in the distribution of saddles. Many retailers will make purchases at these trade shows, averaging 8-12 saddles per line. A listing of key trade shows, indicating the city and dates, location, and contact, is provided in Appendix A.

Key trade associations in the saddle industry are the following:

Western and English Manufacturers Association (WAEMA)
789 Sherman St., Ste. 160
Denver, Colorado 80203
(303)-837-1280

Key Contact: Carl O. Norberg or Glenda Chipps

WAEMA is an international trade association of manufacturers and distributors of western and English apparel and tack. They provide data and surveys about the overall industry, and industry contacts.

Western/English Retailers of America
2011 Eye Street, N.W., Ste. 600
Washington, D.C. 20006
(202)-347-1932

Key Contact: Ralph Beatty, Director

This national trade association serves the western and English retailers.

Appendix A:

Listing of Key Trade Shows in the Saddle Industry, their Dates, Location, and Point of Contact

MARKET DIRECTORY

City / Dates	Market Location	Contact
Amarillo, TX *(Meeting dates not submitted.)*	Amarillo Men's Market Fifth Season Inn I-40 & Coulter Amarillo, Texas	Travis Barker 6415 Drexel Amarillo, TX 79109 Ph. 806-359-9636
Atlanta, GA *(Meeting dates not submitted.)*	Atlanta Men's & Boys' Apparel Show Atlanta Apparel Mart Atlanta, Georgia	John Rosenberg Atlanta Apparel Mart 250 Spring Street Atlanta, GA 30303 Ph. 404-220-3000
Billings, MT 1989—Nov. 11-13. 1990—Feb. 2-5; Apr. 21-23; Aug. 18-20; Nov. 3-5.	Billings Market Association, Inc. Holiday Inn Complex 5500 Midland Road Billings, Montana	Verba Valentine P.O. Box 1303 Billings, MT 59103 Ph. 406-652-6132
Boston, MA 1990—Mar. 28-29; Sep. 26-27.	New England Leather & Components Show Northeast Trade Center Route 95/128, Exit 35 Woburn, Massachusetts	Bill Foshage 38 Lombard Avenue Amesbury, MA 01913-4007 Ph. 508-388-0775
Calgary, AB, Canada 1990—Mar. 4-6.	Can-Am Western Apparel Association Calgary, Alberta, Canada	Ruth Lasslop Can-Am Western Apparel Association Box 1, Sub. P.O. 10 Calgary, AB, Canada T2C 0E0 Ph. 403-936-5529
Carlisle, PA 1990—Mar. 20-21; Sep. 5-6. 1991—Mar. 19-20; Sep. 24-25.	Pennsylvania Leather & Allied Trade Shows Quality Inn & Embers Convention Center 1700 Harrisburg Pike Carlisle, Pennsylvania	C.A. "Bud" Stiles P.O. Box 90 Ambler, PA 19002 Ph. 215-646-1440
Charlotte, NC 1990—Feb. 4-5; Aug. 19-20. 1991—Feb. 3-4.	Southern Western Wear & Riding Equipment Association Charlotte Merchandise Mart 2500 East Independence Boulevard Charlotte, North Carolina	Edith Brown Charlotte Merchandise Mart 2500 East Independence Boulevard Charlotte, NC 28206 Ph. 704-333-0908
Dallas, TX **1990—Mar. 24-27; Sep. 23-25.**	**Dallas/WAEMA Western/English Market** **Dallas Menswear Mart** **2300 Stemmons Freeway** **Dallas, Texas**	**Carl O. Norberg** **WAEMA** **789 Sherman St., Suite 160** **Denver, CO 80203** **Ph. 303-837-1280**
Dallas, TX 1990—Jan. 21-23; Mar. 24-27; Jul. 29-31; Sep. 23-25.	Dallas Men's & Boys' Apparel Market Dallas Menswear Mart 2300 Stemmons Freeway Dallas, Texas	Tom Bourke Dallas Menswear Mart P.O. Box 586442, Suite M5110 Dallas, TX 75258 Ph. 214-637-2171

MARKET DIRECTORY—continued

City / Dates	Market Location	Contact
Denver, CO 1990—Jan. 12-16; Sep 8-10. 1991—Jan. 11-15, Sep. 7-9. 1992—Jan. 10-14; Sep. 12-14.	Denver International Western Apparel Market 451 East 58th Avenue Denver, Colorado	Susie Hare Mountain States MAC 451 East 58th Avenue, #4595 Denver, CO 80216 Ph. 303-295-1040
Indianapolis, IN 1990—Feb. 3-5; Sep. 8-10. 1991—Feb. 9-11; Aug. 24-26. 1992—Feb. 15-17; Sep. 12-14. 1993—Feb. 13-15; Sep. 11-13.	Midwest Western & Equipment Association, Inc. Indiana Convention Center & Hoosier Dome 100 South Capitol Avenue Indianapolis, Indiana	Paula Williams 7601 Natchez Court Indianapolis, IN 46217 Ph. 317-885-0541
Kansas City, MO 1990—Feb. 3-5; Sep. 8-10.	Midwest Western Market, Inc. 1775 Universal Avenue, #1645 Kansas City, Missouri	Ms. Frankie Little 1775 Universal Avenue, #1645 Kansas City, MO 64120 Ph. 816-241-9157
King of Prussia, PA 1990—Jan. 27-29; Aug. 11-13. 1991—Jan. 19-21; Aug. 17-19. 1992—Jan. 18-20; Aug. 15-17. 1993—Jan. 23-25; Aug. 14-15.	Eastern States Western Salesmen's Assn. Valley Forge Convention Center King of Prussia, Pennsylvania	Roxann Case P.O. Box 2494 Branchville, PA 07826 Ph. 201-948-2552
King of Prussia, PA 1990—Jan. 27-29; Aug. 11-13. 1991—Jan. 19-21; Aug. 17-19.	The American Equestrian Mfgs. Trade Assn. Valley Forge Convention Center King of Prussia, Pennsylvania	Michael Graziano A.E.M.T.A. P.O. Box 1270 Midlothian, VA 23113 Ph. 804-744-8568
Lansing, MI 1990—Feb. 24-25.	Michigan Western Mini Market Lansing Hilton Hotel 7501 West Saginaw Highway Lansing, Michigan	Mel Shulkin 805 Ardis Drive Fort Wayne, IN 46819 Ph. 219-747-0072
Las Vegas, NV 1989—Oct. 4-7. 1990—Mar. 7-10; Sep. 15-18; 1991—Mar. 7-10.	MAGIC (Men's Apparel Guild in California) Las Vegas, Nevada	Elaine Mehl P.O. Box 30469, TA Los Angeles, CA 9003
Las Vegas, NV 1990—Jan. 22-24; Sep. 15-17. 1991—Jan. 5-7; Sep. 14-16.	International Las Vegas Western & English Market Sahara Hotel Space Center 2535 Las Vegas Boulevard South Las Vegas, Nevada	Michael Graziano A.E.M.T.A. P.O. Box 1270 Midlothian, VA 23113 Ph. 804-744-8568
Little Rock, AR 1990—Mar. 17-19; Sep. 8-10. 1991—Mar. 9-11 (tentative).	Apparel Club of Arkansas Robinson Convention Center Little Rock, Arkansas	Carol Keys P.O. Box 5800 Little Rock, AR 72215 Ph. 501-224-3030

MARKET DIRECTORY—continued

City / Dates	Market Location	Contact
Minneapolis, MN 1990—Feb. 10-12; Oct. 6-8. 1991—Feb. 2-4; Sep. 21-23. 1992—Feb. 8-10; Sep. 26-28.	Minneapolis Western Market Northwest Western Wear & Equipment Travelers Association The Thunderbird Hotel & Convention Center 2201 East 78th Street Minneapolis, Minnesota	Patricia Samuelson N.W.W.E.T.A. 4542 Washburn Avenue South Minneapolis, MN 55410 Ph. 612-922-5195
New York, NY 1989—Oct. 22-24; TAG—The Accessory and Garment Leather Show, Jacob K. Javits Convention Center, New York. 1990—Oct. 21-23 (location to be determined).	The Accessory and Garment Leather Show Madison Square Garden New York City, New York	Jane Hardwick Leather Industries of America 1000 Thomas Jefferson Street, N Washington, DC 20007 Ph. 202-342-8086
Odessa, TX 1989—Oct. 1-2. 1990—Apr. 8-9 (tentative); Sep. 30-Oct. 1 (tentative)	Permian Basin Apparel Club Holiday Inn - Parkway 3001 Highway 80 East Odessa, Texas	Danny Ferguson 5502 Woodbine San Angelo, TX 76904 Ph. 915-944-3848
Orlando, FL 1990—Jan. 20-22; Jul. 22-24.	Florida Western Wear and Riding Equipment Association Expo Centre 500 West Livingston Street Orlando, Florida	Gladys Sawyer P.O. Box 1065 Winter Garden, FL 32787 Ph. 407-877-8766
Overland Park, KS 1990—Mar. 3-5; Aug. 25-27. 1991—Mar. 2-4; Aug. 24-26.	Heart of America Shoe Travelers, Inc. K.C. Merchandise Mart 6800 West 115th Overland Park, Kansas	Maxine Seers R.R. 2, Box 131 A Louisburg, KS 66053 Ph. 913-837-5290
Phoenix, AZ 1989—Oct. 21-23. 1990—Jan. 27-29; Mar. 30-Apr. 1; Jun. 16-18; Aug. 11-13; Oct. 18-20.	Arizona Apparel Association Phoenix Civic Plaza Phoenix, Arizona	John Kyler or Barbara Crocker P.O. Box 2068 Scottsdale, AZ 85252 Ph. 602-949-5727
Sacramento, CA 1990—Jan. 20-22; Sep. 22-24. 1991—Jan. 19-21; Sep. 21-23. 1992—Jan. 18-20; Sep. 19-21. 1993—Jan. 23-25.	West Coast Western Market Sacramento Convention Center 14th & J Streets Sacramento, California (Social Hdqt.—Sacramento Inn)	Noralee Parsons W.C.W.M. P.O. Drawer 15958 Sacramento, CA 95852 Ph. 916-929-1551
Salt Lake City, UT *(Meeting dates not submitted.)*	Salt Lake City Fashion Exhibitors 230 West 200 South, #2301 Salt Lake City, Utah	Sherry Long P.O. Box 17493 Salt Lake City, UT 84117 Ph. 801-272-3011

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MARKET DIRECTORY—continued

City / Dates	Market Location	Contact
Spearfish, SD 1990—Apr. 28-29; Sep. 30-Oct. 1.	Black Hills Western Market Assn. Holiday Inn I-90 & U.S. 14-A Spearfish, South Dakota	Jan Lutz 17385 Caribou Drive Monument, CO 80132 Ph. 719-488-3346
St. Louis, MO 1990—Mar. 25-26; Sep. 23-24.	Heart of America Shoe Travelers, Inc. Holiday Inn West I-270 at St. Charles Rock Road St. Louis, Missouri	Maxine Seers R.R. 2, Box 131 A Louisburg, KS 66053 Ph. 913-837-5290
St. Louis, MO 1990—Feb. 20-21; Aug. 21-22. 1991—Feb. 26-27; Aug 20-21.	St. Louis Leather & Allied Trade Shows Marriott Hotel - Airport I-70 at Lambert International Airport St. Louis, Missouri	Virginia Breen 1209 South Brentwood Brentwood, MO 63117 Ph. 314-721-1662
Toronto, ON, Canada 1990—Feb. 17-19; Sep. 8-10. 1991—Feb. 16-18.	Canadian Equestrian Equipment & Apparel Association Skyline Hotel Toronto, Ontario, Canada	Irene Fraser C.E.E.A.A. Box 926 Stratford, ON, Canada N5A 7M3

To obtain the telephone number for U.S. companies listed by city and state, locate the state and city on the area code table below and dial the corresponding area code + 555 1212 and give the name of the company and city to the operator. In the case that the city is not listed in the table below, call any of the area codes corresponding to the company's state + 555 1212 and the operator can provide the correct area code to dial for further information.

place	area code
Alabama	
all locations	205
Alaska	
all locations	907
Arizona	
all locations	602
Arkansas	
all locations	501
Bahamas	
all locations	809
Bermuda	
all locations	809
California	
Anaheim	714
Bakersfield	805
Burbank	818
Huntington Beach	714
Long Beach	213
Los Angeles	213
Riverside	714
Sacramento	916
San Diego	619
San Fernando	818
San Francisco	415
San Jose	408
Santa Ana	714
Van Nuys	818
Canada	
London, Ont.	519
Montreal, Quebec	514
North Bay, Ont.	705
Ottawa, Ont.	613
Quebec, Quebec	418
Thunder Bay, Ont.	807
Toronto, Ont.	416
Trois Rivieres, Quebec	819
Val d' Or, Quebec	819
Colorado	
Aspen	303
Boulder	303
Colorado Springs	719
Denver	303
Pueblo	719
Vail	303
Connecticut	
all locations	203
Delaware	
all locations	302
District of Columbia	
Washington	202
Florida	
Boca Raton	407
Ft. Lauderdale	305
Hialeah	305
Hollywood	305
Jacksonville	904
Key West	305
Miami	305
St. Petersburg	813
Orlando	407
Tampa	813
Tallahassee	904
West Palm Beach	407
Georgia	
Atlanta	404
Columbus	404
Macon	912
Rome	404
Savannah	912
Waycross	912
Hawaii	
all locations	808
Idaho	
all locations	208
Illinois	
Alton	618
Aurora	312
Cairo	618
Casey	217
Chicago	312
Decatur	217
Elgin	312
Highland Park	312
La Grange	312
La Salle	815
Mt. Vernon	618
Peoria	309
Rockford	815
Springfield	217
Indiana	
Evansville	812
Fort Wayne	219
Gary	219
Hammond	219
Indianapolis	317
Kokomo	317
Michigan City	219
South Bend	219
Iowa	
Cedar Rapids	319
Council Bluffs	712
Davenport	319
Des Moines	515
Dubuque	319
Mason City	515
Sioux City	712
Kansas	
Dodge City	316
Kansas City	913
Ottawa	913
Topeka	913
Wichita	316
Kentucky	
Ashland	606
Dade Park	812
Frankfort	502
Lexington-Fayette	606
Louisville	502
Shelbyville	502
Winchester	606
Louisiana	
Baton Rouge	504
Lake Charles	318
New Orleans	504
Shreveport	318
Maine	
all locations	207
Maryland	
all locations	301
Massachusetts	
Boston	617
Framingham	508
New Bedford	617
Plymouth	508
Springfield	413
Worcester	617
Michigan	
Adnan	517
Ann Arbor	313
Battle Creek	616
Detroit	313
Escanaba	906
Flint	313
Grand Rapids	616
Jackson	517
Kalamazoo	616
Lansing	517
Livonia	313
Monroe	313
Saginaw	517
Sault Ste. Marie	906
Sterling Heights	313
Warren	313
Minnesota	
Albert Lea	507
Claremont	507
Duluth	218
Minneapolis	612
Rochester	507
St. Paul	612
Mississippi	
all locations	601
Missouri	
Independence	816
Jefferson City	314
Joplin	417
Kansas City	816
St. Joseph	816
St. Louis	314
Springfield	417
Montana	
all locations	406
Nebraska	
Abbott	308
Lincoln	402
North Platte	308
Omaha	402
Nevada	
all locations	702
New Hampshire	
all locations	603
New Jersey	
Atlantic City	609
Camden	609
Elizabeth	201
Hackensack	201
Jersey City	201
Newark	201
Paterson	201
Trenton	609
New Mexico	
all locations	505
New York	
Albany	518
Babylon	516
Binghamton	607
Buffalo	716
Elmira	607
Greenwich	518
Hempstead	516
Monroe	914
Mt. Vernon	914
New York City	
Bronx	212
Brooklyn	718
Kennedy Int'l Airport	718
La Guardia Airport	718
Manhattan	212
Queens	718
Staten Island	718
Niagara Falls	716
Peekskill	914
Poughkeepsie	914
Rochester	716
Schenectady	518
Stamford	607
Syracuse	315
Troy	518
Utica	315
White Plains	914
Yonkers	914
North Carolina	
Charlotte	704
Durham	919
Greensboro	919
Raleigh	919
Winston-Salem	919
North Dakota	
all locations	701
Ohio	
Akron	216
Alliance	216
Canton	216
Cincinnati	513
Cleveland	216
Columbus	614
Dayton	513
East Liverpool	216
East Palestine	216
Girard	216
Lodi	216
Lorain	216
Marietta	614
Massillon	216
Newark	614
Niles	216
Ravenna	216
Salem	216
Steubenville	614
Toledo	419
Youngstown	216
Zanesville	614
Oklahoma	
Muskogee	918
Oklahoma City	405
Tulsa	918
Oregon	
all locations	503
Pennsylvania	
Allentown	215
Altoona	814
Chester	215
Erie	814
Harrisburg	717
Hershey	717
Johnstown	814
Paoli	215
Philadelphia	215
Pittsburgh	412
Punxsutawney	814
Reading	215
Scranton	717
Swarthmore	215
Upper Darby	215
Valley Forge	215
West Chester	215
Wilkes-Barre	717
Puerto Rico	
all locations	809
Rhode Island	
all locations	401
South Carolina	
all locations	803
South Dakota	
all locations	605
Tennessee	
Chattanooga	615
Knoxville	615
Memphis	901
Nashville	615
Texas	
Amarillo	806
Arlington	817
Austin	512
Beaumont	409
Corpus Christi	512
Dallas	214
El Paso	915
Fort Worth	817
Garland	214
Houston	713
Irving	214
Lubbock	806
Pasadena	713
San Antonio	512
Waco	817
Utah	
all locations	801
Vermont	
all locations	802
Virgin Islands	
all locations	809
Virginia	
Alexandria	703
Chesapeake	804
Hampton	804
Newport News	804
Norfolk	804
Portsmouth	804
Richmond	804
Roanoke	703
Virginia Beach	804
Winchester	703
Washington	
Olympia	206
Pullman	509
Seattle	206
Spokane	509
Tacoma	206
Vancouver	206
Walla Walla	509
West Virginia	
all locations	304
Wisconsin	
Bay City	715
Beloit	608
Madison	608
Milwaukee	414
Wyoming	
all locations	307

GUATEMALA: PRODUCTS & MARKETS FOR EXPORT GROWTH

FINAL REPORT

MARKET PROFILE: WOOD HOUSEWARES

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID / Guatemala*
and
The Non-Traditional Products Exporters Guild of Guatemala

Prepared by: *Ernst & Young*

Sponsored by: *Private Enterprise Development Support Project II*
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MARKET PROFILE:

WOOD HOUSEWARES

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WOOD HOUSEWARES

I. The Product, its Production and Industrial Outlook

a. Description of Product

"Wood housewares" includes style housewares, giftware and decorative accessories. Style housewares includes kitchen items such as salad bowls, cheese and carving boards, ice buckets, bread boxes, pasta canisters, and coasters, as well as small storage devices. Specialized small functional furniture such as step stools, pot racks, and wine racks are also included in this category. To a significant degree, items in this category have specific utilitarian purposes but purchase decisions are likely to be made based on design and decorative factors.

Giftware encompasses items which may have some function, or excuse of function but are primarily decorative.

Wood housewares are classified under U.S. SIC 2499, and are a well-established mainstay of the housewares category of home furnishings. In recent years there has been steady demand for wood housewares, particularly in the higher end of the market, in which quality and unique styling play an important role.

b. Production Considerations

In housewares, a wide range of price, style and quality exists. With the exception of inexpensive, American colonial pine lines, style is generally "slick," well done, mostly machine-made and machine-finished. Hardwoods are the most commonly used woods for these houseware products.

The type and quality of primary materials used are a very important determinant of perceived value, and will determine in which level of the market the product will be sold. It should be noted that not all items are made entirely of wood. Secondary materials such as glass containers are very important. The character of the secondary materials used can contribute significantly to the appeal of the items. For example, if the manufacturer is producing an inexpensive line, cheap machine-made glass containers would be satisfactory. But to enhance the appeal, the secondary materials selected should have an unique character. For example, the glass could be hand blown, or otherwise have some unique textural characteristic which would contribute to making the finished product more interesting and attractive.

In deciding which market segment to target, the designer and producer must be guided by the type of materials available, as well as their

production skills. A line must be designed before it can be produced or priced.

The manufacturing capacity of the company must also be assessed since it will have a bearing in the determination of the target consumer. If the manufacturer can produce efficiently and in large quantities, the medium to low range of the market will probably be the most profitable segment of the market to pursue. The higher the volume, however, the more the manufacturer will be brought into direct price competition with the Orient, which produces the majority of the products sold at the mass market outlets. If, on the other hand, the manufacturer has an advantage in producing in small runs, the market segment to target might be the high end, specialty market. The manufacturer will experience less price pressure, while style and quality considerations will be of greater importance. Guatemala, in view of the artistic capability of its labor force, combined with its being a source of several fine and exotic woods, places it in a strong position for the production of unique, quality wood housewares.

Regardless of market levels, the wood product must be dimensionally stable and dry. The joints must be durable and the wood must not check or split. These have been major concerns of U.S. importers and buyers when purchasing wood products from Central America. Past experience with wood products from this region has often proven that they do not survive in dry, heated U.S. homes.

The importance of packaging varies inversely with volume. High volume outlets carrying commercial lines will demand attractive, sturdy, four color impulse oriented packaging that will do the selling as well as the explaining of the product's functions and characteristics. In the higher end of the market, characterized by high level of style and quality, the packaging becomes less important since the product itself is emphasized and displayed and informed sales people are more frequently available.

c. Industrial Outlook

Domestic production of wooden housewares is limited. U.S. wood housewares manufacturing operations focus primarily on lower priced goods, in pine softwood, and generally in an American Colonial style ranging from crude to acceptable. Maple and birch wood items are produced by small factories in New England and Wisconsin, and the style tends toward simple contemporary. Such products are priced in the middle to high range.

There are presently over two hundred "wood specialties" manufacturers in the United States selling in the housewares field. Of these manufacturers/distributors, approximately fifteen are doing seven or eight figure volumes. Among the larger producers and distributors are the following:

- Cersosimo Woodproducts, Vermont and Connecticut (medium-high priced line)
- Cornwall Industries, Maine (popular priced line)
- Ekco Houseware, Illinois (low end of the market)
- J. K. Adams, Inc. Dorset, Vermont (top price and quality line)
- Kamenstein, White Plains, New York (lower end, mass market)
- Kennedy Brothers, Vergennes, Vermont (medium priced line)
- Lipper International, Connecticut
- Vermillion, Inc. Springfield, Missouri (popular priced line)

Imports play a major role in this market. The high price of quality maple and birch hardwood in the US, in addition to labor costs, favors imports. Among the leading source countries are:

Taiwan: beech wood and "oak." Generally cheaper, mass produced items. Their importance in the market is declining. Reportedly, this country has problems with obtaining quality wood.

Malaysia: beech wood and teak. Quality is in the middle to high range.

Thailand: teak and some light woods. Quality level is generally high.

II. Market Information and Considerations

a. Market Demand and Main Market Segments

Analysis of the wood housewares market indicates that there is a continuing demand for wood houseware products in the United States, from new sources, if well made and uniquely styled. As in the case of other personal consumer products, demand is cyclical, with consumer spending largely dependent on discretionary income. Most forecasters of consumer spending on houseware products are only cautiously optimistic.

The target markets will vary with the style and quality of the product offered. Generally speaking, however, housewares products are typically sold through retailers, with limited mail order activity on unusual items. Among the selling channels available to a manufacturer are the following:

- housewares departments of department stores and chains;
- regional chains, independently owned housewares and gift stores;
- top end hardware stores and chains;
- kitchen, gourmet shops;
- design stores and chains;
- mail order catalogs.

Most of these retailers would be reached through distributors who import. The distributors would tend to be the same for most houseware categories, versus only wood housewares. Larger manufacturers will have representatives. Both representatives and distributors will sell to the buyers of the national chains and specialty stores. A U.S. trading partner is necessary to sell to the major retailers when an unknown manufacturer is entering the market.

Important examples of potential buyers of wood housewares are the following retailers:

Williams Sonoma. This San Francisco based company has a number of retail stores as well as its own mail order catalog, which is the best in this category. The company sells the better market.

Better Department Stores. such as:

- Bloomingdales, New York, N.Y.
- Dayton Hudson, Minneapolis, MN
- Jordan Marsh, Boston, MA
- Lord & Taylor, New York, N.Y.
- Macy's, New York, N.Y.
- Nordstrom, Seattle, WA.

These department stores target the medium to high end of the market. While also selling traditional style items, these stores are likely to seek contemporary style and to demand interesting materials.

Crate & Barrel, Conran's, and specialty kitchen and tabletop retail outlets in general. These stores offer good quality and the best possible design products.

b. Major Factors in Buying Decision

Style and design play an important role in the buying decision, both by the retail buyers as well as the end consumer. Style levels will vary according to the buyers' position in the market.

c. Pricing Considerations

While price is key in the buying decision, other primary considerations in the case of most style-houseware products are design and material. Only after the manufacturer has made decisions concerning these two factors will it concern itself with price. Potential manufacturers and exporters of wood houseware products must study the price schedules of their competition. Unique product lines are less price sensitive.

An example of prices of wood housewares currently being sold to retailers from distributors include:

Teak cheese tray with glass dome and knife:	$13.50
Teak 10 X 6 salad bowl with 4 ind. small bowls:	$18.00
Teak Wine Rack, Stackable, 5 bottle	$17.50
Roll top Ice Bucket, 4 quart	$26.00
Teak Wooden Tray, 14 X 14	$ 9.50
Roll Top Audio Tap Cabinet, 15 capacity	$13.50
Letter Size Teak Desk Tray	$16.00
Black Walnut Salad Bowls, set of 4	$21.00
Black Walnut 9 bottle Ring Style Wine Rack	$26.50

Wooden office products are currently experiencing strong market demand, according to discussions with distributors.

III. Distribution Channels

a. How Does the Product Reach the End User?

Imported items are an important component of the housewares and giftware industry. Generally, import purchases are made by stocking houseware distributors. They generally sell through manufacturers' representatives who often have their own regional showrooms in which they present the lines of many companies. When many lines are displayed in the same showrooms, the lines are market related but non-competitive. Sales representatives are paid on a commission basis.

The importing distributor will tend to mark up their landed cost of a product about 100 percent. If selling a high-volume line, that is $10 million or above, the distributor may be forced by competition to work on smaller profit margins. It is not uncommon for an importer to sell a "direct import offer" to major accounts purchasing, perhaps, upward of $20,000 on a single line, single order. This would allow the distributor/importer to bypass their warehouse and much of their billing cost; they may even require letter of credit payment. In such cases, the distributor or importer may work on 30-40 percent of landed, or C.I.F. cost. Such arrangements are highly negotiable. The important thing to note, however, is that purchases of this kind will generally be considered only for products or product lines which have already demonstrated a solid record of success at retail.

The retailer will tend to mark up at least an additional 100 percent, with large, direct import purchases exceeding that mark-up. Department stores and mail orders look for at least 110 percent from their wholesale cost to retail.

Sales agents, or manufacturers' representatives, tend to earn commissions in the 15-22 percent range. Those offering regional showrooms may add up to an additional 5 percent. Proven, high-volume lines may negotiate a 10 percent commission. Since housewares tend to larger sales and reorders than the giftware category, the sales commission paid tends toward the lower end of the commission range.

b. Trade Terms

As for the terms of trade, wholesalers sell on terms of net 30 days, or 2 percent, 10 days; net 30 days. However, accounts receivables aging tends to average about 60 days, with department stores being even slower payers. Distributors and wholesalers generally guarantee customer's satisfaction with quality and will demand the same guarantee of quality from their off-shore supplier.

When dealing with mail order firms, several special considerations apply which affect the exporter. Generally, stock-on-hand in the U.S. is required by the mail order purchaser. The mail order operator will sample a few pieces, test them in a catalog mailing, then typically order about 30 percent of the anticipated sales needs for the life of a particular catalog. The purchaser will expect the U.S. distributor to carry stock, on hand, and to deliver promptly additional merchandise as required.

In addition, mail order catalog houses may ask the importer to participate in the cost of the catalog either directly through additional discounts of 10 to 20 percent, by furnishing photography, or even buying space in a few cases. A mail catalog house will seldom purchase directly, and in advance, from a foreign source.

In the houseware market, sales equipment such as samples and catalogues are usually the responsibility of the importing wholesaler. The importer will also handle sales training and, generally, attend trade fairs at his own expense.

The key to successful penetration of the market is getting the best possible manufacturer's representatives who are typically much sought after. A person or firm known in the trade will have much less trouble recruiting potentially productive commission salesmen than would a newcomer.

c. Import Duties

Guatemala is a beneficiary country of both the Generalized System of Preferences (GSP) and the Caribbean Basin Economic Recovery Act (CBI). As a result, wooden kitchen and gift items are imported free of duty. This gives Guatemala an advantage over non-GSP and non-CBI beneficiary countries, which must pay an average duty of 5.3 percent on the landed value. Wood housewares, as long as the wood originates from Guatemala and is crafted by Guatemalan artisans, will comply with the terms of the CBI provisions. U.S. Customs will require a properly completed Certificate of Origin-Form A at the point of entry. The Harmonized Tariff Schedule Number for the product category is 4419 for tableware/kitchenware, 4420 for wooden ornaments and other products.

IV. Recommended Export Strategy

The style hardgoods industries are not accustomed to thinking of Central America generally, and Guatemala specifically, as a source of products. At least initially, they will be suspicious and will want to "see" before they "go". Consistency of quality, dependability of delivery, and professional packaging are extremely important.

A manufacturer contemplating exporting to the United States must address several issues in order to be successful. They will need a product designed and manufactured at a level suitable to the US market. They should be prepared to package their own product. They must deliver a high and consistent quality product. Finally, they will have to make sure that the product is delivered on time as previously agreed to. Only at this point will the price become important. The basic guideline is for the manufacturer to look at their direct competitors and price along the same lines.

An additional consideration which will facilitate business with the United States is the availability and immediate accessibility to an individual, such as a sales representative, who can solve potential problems as they surface. Due to distance, language barriers, and different business customs, it is very important for an exporter to make arrangements with a

trading partner in the U.S. who can service problems as they arise, and communicate necessary changes to the exporter.

Linkage with a U.S. importing/assembling manufacturers can be an ideal trading arrangement, at the start, for a Guatemalan manufacturer. The U.S. manufacturer could offer technical production expertise, styling knowledge, while eliminating the packaging problems. Several manufacturers of wood housewares expressed interest in wood parts of the wooden housewares. This is an opportunity meriting consideration.

Finally, a manufacturer of wooden housewares must ensure that quality requirements other than normal cosmetic aspects are addressed. For example, attention must be given to the adequacy of the woods used, the type of glue used in joining pieces, as well as design features. These quality standards can be provided by the U.S. marketing partner, but the manufacturer needs to ensure the local capability is at the appropriate level.

V. Trade Associations, Publications and Shows

a. Trade Associations

National Housewares Manufacturers Association, Merchandise Mart, Chicago, Illinois. Organizes housewares shows.

b. Principal Trade Shows

National Housewares Manufacturers Association, Chicago (annual) and Atlanta (annual, but far less important).

New York Gift Shows, New York City, two times a year. Operated by George F. Little Management, New York, N.Y.

San Francisco Gourmet Products Show, San Francisco, spring. Operated by George F. Little Management, New York, N.Y.

c. Principal Trade Publications

Housewares Magazine, Chicago, Illinois

Home World, ICB Publishing, Long Island, New York

Homefurnishings Daily, Fairchild Publications, New York, N.Y.

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APPENDIX A

WOOD HOUSEWARES

Market Expert/Buyer

Mr. Norbert Nelson, President of Norbert Nelson, Inc., has been invited to Guatemala to join the Ernst & Young team as Wood Housewares market expert. In Guatemala, Mr. Nelson will participate in the market profile presentation and meet with potential suppliers to examine their capabilities and to discuss opportunities for developing business relationships with his firm. His visit will provide Guatemala businessmen with an opportunity to learn about different segments of the U.S. wood houseware market, and about their potential to conduct business in this market.

Norbert Nelson, Inc. was established in 1978 in New York City, New York. It is a style hardgoods product development and marketing consulting firm, serving the giftware, housewares, home furnishings, and accessories industries. Their main product lines are: giftware, housewares, home furnishings, and home accessories. Their international experience include establishing international sourcing arrangements -- since 1949 roughly 20% of Mr. Nelson's experience has been overseas. Countries in which the company has conducted business include: Guatemala, Mexico, El Salvador, Colombia, Ecuador, Peru, U.S. Virgin Islands, Haiti, Puerto Rico, Bolivia, Great Britain, Ireland, France, the Scandinavian countries, West Germany, Spain, Italy, Canada, Hong Kong, Korea, Japan, and the Philippines. Mr. Nelson's interest in Guatemala is to develop sources for particular products and to establish business relationships.

Mr Nelson currently serves as the Director of the National Crafts Showroom in New York. In addition to representing approximately 200 American crafts people, this non-profit group interfaces with national, international and regional craft organizations, both public and private, and with craft cooperatives in the U.S. and abroad.

Appendix B

To obtain the telephone number for U.S. companies listed by city and state, locate the state and city on the area code table below and dial the corresponding area code + 555 1212 and give the name of the company and city to the operator. In the case that the city is not listed in the table below, call any of the area codes corresponding to the company's state + 555 1212 and the operator can provide the correct area code to dial for further information.

place	area code
Alabama	
all locations	205
Alaska	
all locations	907
Arizona	
all locations	602
Arkansas	
all locations	501
Bahamas	
all locations	809
Bermuda	
all locations	809
California	
Anaheim	714
Bakersfield	805
Burbank	818
Huntington Beach	714
Long Beach	213
Los Angeles	213
Riverside	714
Sacramento	916
San Diego	619
San Fernando	818
San Francisco	415
San Jose	408
Santa Ana	714
Van Nuys	818
Canada	
London, Ont.	519
Montreal, Quebec	514
North Bay, Ont.	705
Ottawa, Ont.	613
Quebec, Quebec	418
Thunder Bay, Ont.	807
Toronto, Ont.	416
Trois Rivieres, Quebec	819
Val d' Or, Quebec	819
Colorado	
Aspen	303
Boulder	303
Colorado Springs	719
Denver	303
Pueblo	719
Vail	303
Connecticut	
all locations	203
Delaware	
all locations	302
District of Columbia	
Washington	202

place	area code
Florida	
Boca Raton	407
Ft. Lauderdale	305
Hialeah	305
Hollywood	305
Jacksonville	904
Key West	305
Miami	305
St. Petersburg	813
Orlando	407
Tampa	813
Tallahassee	904
West Palm Beach	407
Georgia	
Atlanta	404
Columbus	404
Macon	912
Rome	404
Savannah	912
Waycross	912
Hawaii	
all locations	808
Idaho	
all locations	208
Illinois	
Alton	618
Aurora	312
Cairo	618
Casey	217
Chicago	312
Decatur	217
Elgin	312
Highland Park	312
La Grange	312
La Salle	815
Mt. Vernon	618
Peoria	309
Rockford	815
Springfield	217
Indiana	
Evansville	812
Fort Wayne	219
Gary	219
Hammond	219
Indianapolis	317
Kokomo	317
Michigan City	219
South Bend	219
Iowa	
Cedar Rapids	319
Council Bluffs	712
Davenport	319
Des Moines	515
Dubuque	319
Mason City	515
Sioux City	712
Kansas	
Dodge City	316

place	area code
Kansas City	913
Ottawa	913
Topeka	913
Wichita	316
Kentucky	
Ashland	606
Dade Park	812
Frankfort	502
Lexington-Fayette	606
Louisville	502
Shelbyville	502
Winchester	606
Louisiana	
Baton Rouge	504
Lake Charles	318
New Orleans	504
Shreveport	318
Maine	
all locations	207
Maryland	
all locations	301
Massachusetts	
Boston	617
Framingham	508
New Bedford	617
Plymouth	508
Springfield	413
Worcester	617
Michigan	
Adnan	517
Ann Arbor	313
Battle Creek	616
Detroit	313
Escanaba	906
Flint	313
Grand Rapids	616
Jackson	517
Kalamazoo	616
Lansing	517
Livonia	313
Monroe	313
Saginaw	517
Sault Ste. Marie	906
Sterling Heights	313
Warren	313
Minnesota	
Albert Lea	507
Claremont	507
Duluth	218
Minneapolis	612
Rochester	507
St. Paul	612
Mississippi	
all locations	601
Missouri	
Independence	816
Jefferson City	314
Joplin	417
Kansas City	816

place	area code
St. Joseph	816
St. Louis	314
Springfield	417
Montana	
all locations	406
Nebraska	
Abbott	308
Lincoln	402
North Platte	308
Omaha	402
Nevada	
all locations	702
New Hampshire	
all locations	603
New Jersey	
Atlantic City	609
Camden	609
Elizabeth	201
Hackensack	201
Jersey City	201
Newark	201
Paterson	201
Trenton	609
New Mexico	
all locations	505
New York	
Albany	518
Babylon	516
Binghamton	607
Buffalo	716
Elmira	607
Greenwich	518
Hempstead	516
Monroe	914
Mt. Vernon	914
New York City	
Bronx	212
Brooklyn	718
Kennedy Int'l Airport	718
La Guardia Airport	718
Manhattan	212
Queens	718
Staten Island	718
Niagara Falls	716
Peekskill	914
Poughkeepsie	914
Rochester	716
Schenectady	518
Stamford	607
Syracuse	315
Troy	518
Utica	315
White Plains	914
Yonkers	914
North Carolina	
Charlotte	704
Durham	919
Greensboro	919
Raleigh	919

place	area code
Winston-Salem	919
North Dakota	
all locations	701
Ohio	
Akron	216
Alliance	216
Canton	216
Cincinnati	513
Cleveland	216
Columbus	614
Dayton	513
East Liverpool	216
East Palestine	216
Girard	216
Lodi	216
Lorain	216
Marietta	614
Massillon	216
Newark	614
Niles	216
Ravenna	216
Salem	216
Steubenville	614
Toledo	419
Youngstown	216
Zanesville	614
Oklahoma	
Muskogee	918
Oklahoma City	405
Tulsa	918
Oregon	
all locations	503
Pennsylvania	
Allentown	215
Altoona	814
Chester	215
Erie	814
Harrisburg	717
Hershey	717
Johnstown	814
Paoli	215
Philadelphia	215
Pittsburgh	412
Punxsutawney	814
Reading	215
Scranton	717
Swarthmore	215
Upper Darby	215
Valley Forge	215
West Chester	215
Wilkes-Barre	717
Puerto Rico	
all locations	809
Rhode Island	
all locations	401
South Carolina	
all locations	803
South Dakota	
all locations	605

place	area code
Tennessee	
Chattanooga	615
Knoxville	615
Memphis	901
Nashville	615
Texas	
Amarillo	806
Arlington	817
Austin	512
Beaumont	409
Corpus Christi	512
Dallas	214
El Paso	915
Fort Worth	817
Garland	214
Houston	713
Irving	214
Lubbock	806
Pasadena	713
San Antonio	512
Waco	817
Utah	
all locations	801
Vermont	
all locations	802
Virgin Islands	
all locations	809
Virginia	
Alexandria	703
Chesapeake	804
Hampton	804
Newport News	804
Norfolk	804
Portsmouth	804
Richmond	804
Roanoke	703
Virginia Beach	804
Winchester	703
Washington	
Olympia	206
Pullman	509
Seattle	206
Spokane	509
Tacoma	206
Vancouver	206
Walla Walla	509
West Virginia	
all locations	304
Wisconsin	
Bay City	715
Beloit	608
Madison	608
Milwaukee	414
Wyoming	
all locations	307

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GUATEMALA: PRODUCTS & MARKETS FOR EXPORT GROWTH

FINAL REPORT

MARKET PROFILE: NATURAL AND ETHNIC PROCESSED FOODS

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID / Guatemala*
and
The Non-Traditional Products Exporters Guild of Guatemala

Prepared by: *Ernst & Young*

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MARKET PROFILE:

NATURAL AND ETHNIC PROCESSED FOODS

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NATURAL AND ETHNIC PROCESSED FOODS

I. The Product, its Production, and Industrial Outlook

a. Description of Product

This market profile reviews the following processed foods: processed fruits, vegetables, and specialties; cookies and crackers; salted and roasted nuts & seeds; potato chips and similar products; and food preparations, not elsewhere specified. It examines the natural and ethnic sub-markets for the above mentioned foods.

The selected products include the following U.S. Standard Industrial Code (SIC) categories: 203 Preserved Fruits and Vegetables, 2032 Canned specialties, 2033 Canned fruits and vegetables, 2034 Dried fruits, vegetables, and soups, 2035 Pickles, sauces, & salad dressings, 2052 Cookies and crackers, 2068 Salted and roasted nuts & seeds, 2096 Potato chips & similar products, 2099 Food preparations, not elsewhere specified. The selected processed foods are characterized by their convenience for the consumer in terms of ease of preparation vis a vis unprocessed foods, size of portions and portability, and increased storability as compared to fresh food.

U.S. consumers have a growing interest in knowing the contents of the foods they eat, and surveys have shown a growing preference for organic and natural foods. This movement is affecting more and more products. The U.S. market now has products as diverse as organic baby food, natural lipsticks made of beeswax, and organic pet foods.

Processed natural food is a larger sub-group of processed foods than is organic food. Organic food is a subgroup of natural foods. Natural food is different from organic food in that the end product must not have additives, preservatives, or be adulterated, nor have its principal nutrients removed in the processing. It may, however, be produced or stored with chemicals. Natural food is a much larger segment of the food market than organic food because natural food production and processing are much more similar to conventional food production and processing.

The definition of organic foods is evolving and may not become uniform on a nationwide basis for the next few years. The main reason for this is that the federal government until recently had not taken the initiative to regulate claims regarding organic production and processing in advertising. One definition supplied by Steven Hoffman, editor of Natural Foods Merchandiser, is "food produced without the use of chemical fertilizers, pesticides, herbicides and fungicides, and processed without the use of fumigants, the addition of preservatives, dyes or waxes, or the removal of substantial portions of the nutrients." The only permissible

additives in processed organic food are salt, vitamins, or other organic foods.

Ethnic foods include foods that are introduced to the U.S. market by ethnic groups. Mexican foods in recent years have become one of the most popular ethnic foods. They include products such as refried beans, tortillas, spices, soups and vegetables and are one of the fastest growing areas of processed foods. Some of the major producers of Mexican foods are Campbells of Mexico and Del Monte of Mexico, which both export to California. Campbells of Mexico produces canned red and green sauce; mole sauce; squash, lentil, corn and shrimp soup; and refried beans. Del Monte of Mexico exports canned chile peppers to the United States.

b. Production Considerations

Guatemala has a cost advantage over the United States in the labor-intensive aspects of food production and processing. In addition it enjoys a natural advantage in that it grows food that cannot be produced as well in the climate of the United States or is produced in a different season.

The United States market has more food product liability safeguards than the Guatemalan and Central American markets. Guatemalan producers may need to modify their packaging for the U.S. market by using tamper-proof packages and printing lot numbers and product expiration dates on packages. The United States has very strict standards concerning the shelf life of processed products. The use of bar codes on processed food labels has become more prevalent and has helped stores keep better control over inventory.

Ethnic foods that are marketed to U.S. hispanics must have the required labeling information in English and in some cases the hispanic consumer will want the same information translated in Spanish.

Natural food production is similar to conventional food production. The difference between natural foods and conventional foods lies in the final product. Natural foods must not have any chemical additives nor had its principal nutrients removed.

For some companies which have never considered producing for the organic market, the process of becoming certified may take some time and investment. Producers need to learn to use new crop rotations and natural fertilizers to build up soil fertility and biological pest management to replace chemical pest control.

In today's market, anyone who calls a product "organic" is expected to prove it. The following is a list of some of the organizations that provide third-party certification. These organizations have developed standards that must be satisfied before their logos can be attached.

FVO - Farm Verified Organic
NOFA - National Organic Farmers Association
CCOF - California Certified Organic Farmers
MOFGA - Maine Organic Farmers & Gardeners Association
OGBA - Organic Growers and Buyers Association
OCIA - Organic Crop Improvement Association

OCIA is probably the most internationally-oriented certification organization and has reportedly worked with producers of an organically grown coffee in Guatemala. OCIA requires "no use of non-acceptable materials (insecticide, herbicide, fungicide, fertilizers, etc.) or methods during the year of production and the three previous years." in order to certify a member as an organic producer. This organization charges membership dues and user fees based on sales to pay their costs of marketing and compliance verification. More information on membership and certification can be obtained at the following address:

OCIA
3185 Twp. Road 179
Bellefontaine, Ohio 43311
Tel. (513) 592 4983
Fax (513) 592 4983

OCIA has an affiliate, CEMAT, which has worked on the certification of an organic coffee producer in Guatemala. The representative can be located at the following address:

Luz Marina Delgado
Apartado Postal 1160
Ciudad de Guatemala
Guatemala

c. Industrial Outlook

The domestic fruit, vegetable, and specialty food processing industries produce both canned goods and frozen foods. The canned goods industry accounted for 67 percent of all processed food industry shipments in 1989. Canned producers can or manufacture baby food, ethnic foods, and soups (SIC 2032); process fruits, vegetables, juices, tomato products, jams, jellies, and preserves (SIC 2033); package dry fruits and vegetables or manufacture soup mixes from dehydrated ingredients (SIC 2034); and/or process salad dressings, relishes, seasonings, and pickles (SIC 2035). Establishments classified in the frozen food industry freeze fruits, fruit juices, and vegetables (SIC 2037) or manufacture specialty foods such as frozen dinners, waffles, soups, whipped toppings, and pizzas (SIC 2038).

The value of canned fruits, vegetables, and processed food specialities grew 11.4% to $28.3 billion in 1989. In constant dollars, sales increased 3.5%. The sectors with the strongest growth were baby food, tomato

products and other sauses, salad dressings, dried fruits and soups, and aseptically packaged foods. The popularity of basic canned fruits and vegetables continued to decline as consumers' preference for both fresh and frozen goods increased.

Consumers are demanding quality and variety in their meals. The plethora of sauces, low calorie dressings and dressings with olive oil, and ethnic foods cater to this demand. While Italian is still the most popular ethnic cuisine, Mexican foods are moving up fast, partly because of the sharp increase in the U.S. hispanic population. Salad dressing shipments grew almost 3 percent in 1989, as salad bars proliferated in restaurants and grocery stores. Almost one-half of supermarkets now provide salad bars, more than double the number 5 years ago.

Sales volume in the baby food sector was up almost 5% over 1988. A growing infant population assures a growing market, but companies are battling for market share with new products featuring low salt and/or no sugar added preparations. Sales of dried and ready-to-serve soups continued strong in 1989. Dry soups accounted for more than 30% of the soup market, more than twice the share of a decade ago. Dried soups and ready to serve soups, which are easily microwaved, meet the needs of a changing society in which people have limited time for meal preparation. Aseptically packaged ("boxed") juices, now popular among children, continued to sell well in 1989. This type of consumption has helped increase U.S. annual per capita juice consumption from 7 gallons in 1985 to 8 gallons in 1988.

Today more than 1,000 of 17,000 supermarkets in the United States test certain foods for pesticide residues, using private companies that work with the stores' contract growers. A survey by Louis Harris and Associates in November 1988 found that 84 percent of those surveyed would prefer organically grown food and 49 percent would pay more for it. Some market research analysts estimate that consumers are willing to pay up to a 30 to 50% premium for organic foods over the price of non-organic foods.

Organic production of food is not the only trend that is gaining acceptance in the United States. Consumers are also learning about how different types of processing can help retain more of the nutritional benefits in foods. For example, fruits that are sun-dried reportedly retain more of their vitamins than fruits that are oven-dried. Organically processed oils are also appreciated over oils that are processed for the mass-market. Mass-market oils may be crushed, heated, steamed, bleached, degummed, distilled, deodorized, filtered, artificially preserved or drenched in oil-freeing, petroleum-based solvents such as hexane and stored in a warehouse for a year to 18 months before being sold. Highly refined oils often contain saturated fats, which are believed to contribute to heart disease.

Organic oils, on the other hand, are not subject to high heat during processing, may not be filtered, and sometimes are produced in a light-free and oxygen-free environment to prevent spoilage. These oils are believed to be more nutritious and often contain polyunsaturated fats and essential fatty acids, which some experts say may help prevent heart disease. The difference in the two products has been reflected in the market, which has valued organic oil prices by about 60% over the price of mass-market oils.

Packaging is also important to organic food consumers. For example, some retail stores prefer cellophane packages to plastic packages. Many organic food consumers want food packaged in recyclable or biodegradable packaging. Glass containers are usually preferred to plastic containers. One U.S. natural foods producer is reportedly developing a biodegradable cup for single-serving instant meals. The cup will be made of corrugated cardboard surrounded by smooth paperboard. Another company is exploring the use of biodegradable cellophane, recyclable cans and recently switched to recycled cardboard boxes and shipping containers.

A growing numbers of consumers are demanding foods with convenience, quality, variety, and healthful attributes. Today, 70 percent of U.S. households own microwave ovens; some industry researchers estimate 15 minutes is the maximum most U.S. people are willing to spend to prepare an ordinary meal.

d. Government Regulations and Import Duties

The Food and Drug Administration (FDA) is the U.S. government agency responsible for assuring that foods sold in the United States are safe, wholesome, and properly labeled. The U.S. Department of Agriculture also regulates certain processed foods (meat, poultry, and eggs). The FDA regulations governing food production and marketing are found in Title 21, Code of Federal Regulations and include regulations on food labeling, food standards, good manufacturing practices for foods, low-acid canned foods, acidified foods, food additives, and sanitation.

In order to comply with GATT regulations, the United States has the same regulations for imports as it does for domestically produced food. However, the FDA treats imports of processed foods differently in that it does not have authority to inspect foreign processing facilities; it ensures the safety and accuracy of labeling of imports through sample inspections of the food products themselves. This contrasts with both plant inspections and product inspections for domestically produced food.

The FDA does not require prior approval of a label or a product before it is used in the U.S. marketplace. However, foreign producers who want to test a label or product container in advance of usage in the U.S. market may send a sample or artistic layout and specifications to the following division of FDA:

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Food and Drug Administration
Attention: William Carter
Center for Food Safety and Applied Nutrition
200 C Street SW
Washington, D.C. 20204

Appendix A is a schematic of the process of meeting FDA regulations for importing food into the United States. FDA has the following publications to explain its regulations and procedures which can be obtained by writing to:

U.S. Government Printing Office
Superintendent of Documents
Government Printing Office
Washington D.C. 20402
Telephone (202) 783-3238

Example Documents:

- A Food Labeling Guide
- Title 21, Code of Federal Regulations
- Requirements of the Laws and Regulations Enforced by the Food and Drug Administration
- Fair Packaging and Labeling Act Manual

The FDA also provides government-to-government technical assistance to other countries on all aspects of preparing food products to comply with U.S. government regulations.

FDA uses the same pesticide residue tests for natural and organic foods and uses the same standards regarding wholesomeness, safety, packaging and labeling as it uses for conventional foods. FDA's specific regulations regarding marketing claims associated with natural foods are complex. For example, some foods can qualify as natural even though they have additives (if the additive is natural). Some products can be labelled as natural but also must have labels about the chemicals contained in the food (these chemicals must not have been added in the processing of the food).

Some products qualify as natural but are restricted in the claims of health benefits that can be made. Because of the complexity of the regulations, the best way for an exporter to ensure compliance with regulations is to obtain a list of banned additives and a list of those elements of food that must be described on the label from the FDA. Then the producer should submit a sample label to the FDA, asking whether the ingredients and processing of the food would allow it to qualify as natural food.

There is no federal regulation of advertising claims concerning organic food, but Congressional legislation is pending. Sixteen of the 50

United States have passed laws or adopted regulations defining "organic" for labeling purposes. Private organizations are providing certification to ensure that labels and advertising concerning organic foods are true.

The Caribbean Basin Initiative (CBI) program permits duty-free imports of all processed foods and does not apply any quotas to food imports except for products made of sugar. There is a wider range of duty-free food products under CBI than under the Generalized System of Preferences (GSP). One example is tomato products, which can be imported duty-free under CBI but are not eligible for GSP duty-free status. In addition, duty-free status is not revoked under CBI countries after an exporting country reaches a certain level of U.S. market share, as it can be under GSP.

II. Market Information and Considerations

a. Market Demand and Main Market Segments

The following U.S. Department of Commerce estimates of U.S. sales and the import data in Appendix B indicate that the processed food sector is growing in all areas except for imports of fruit and vegetable juices and sugar and miscellaneous tropical products.

Selected U.S. Food and Beverages Sales, 1987-1989
(in million dollars)

U.S. SIC Code		1987	1988	1989
203	Preserved Fruits and Vegetables	34,626	36,896	40,442
2032	Canned specialties	4,459	4,750	5,121
2033	Canned fruits and vegetables	12,219	12,760	14,332
2034	Dried fruits, vegetables, and soups	2,050	2,064	2,561
2035	Pickles, sauces, & salad dressings	4,488	4,974	5,413
2052	Cookies and crackers	5,874	6,356	6,950
2068	Salted and roasted nuts & seeds	2,058	2,020	2,040
2096	Potato chips & similar products	4,988	5,415	5,820
2099	Food preparations, not else specified	10,598	11,600	12,530

Appendix A shows the values of processed food imports into the United States from all countries. The data show five year growth for all categories The leading sectors of processed foods in 1989 were the following: U.S. specialty food sales increased by 13% in 1989, led by 37% growth in the health and natural foods category. Growth in the health and natural foods category was led by crackers, candy, cookies and cereals. Other categories that showed significant growth included oils, vinegars and cooking wines (29%), sauces and condiments (28%), coffee and teas (18.5%), and ethnic foods (15%).

Of the ethnic foods, Mexican foods represents a promising growth market. A study by an industry analyst estimated retail sales of Mexican foods at $1.49 billion in 1988, and projected 8.5% growth annually for the next four years. Canned and dry Mexican food products account for more than 66% of the market in terms of retail sales.

The Natural Foods Merchandiser estimated that natural foods sales grew 9.9% to $3.55 billion in 1988. One market research firm estimates that the market for organic food grew by a 30% average annual rate from $174 million in 1980 to $893 million in 1988. In 1989 there was increased concern about the safety of U.S. foods due to the controversy over the use of Alar on apples and the discovery of tainted grape imports from Chile. This contributed to an estimated 40% growth to $1.25 billion in sales in 1989. An estimated 50% of organic food is sold fresh, and the other 50% is processed. Consequently, the U.S. market for processed organic food is approximately $600 million.

b. Pricing Considerations

The number of U.S. food retailing outlets has been contracting in recent years. Between 1958 and 1988, the number of retail food outlets shrank by over 120,000 stores, or 1.4% annually. In the past decade, the dramatic increase in new products has led to retailers claiming that they do not have enough shelf space. Retailers realize that four out of five products fail to gain acceptance in the consumer food market and that their shelf space constitutes a valuable and non-expanding asset. Some retailers have begun to ask for fees, called slotting allowances, from manufacturers submitting new products.

One industry expert described the following typical scenario for general processed food markups between the producer and retailer (this example assumes no processing after the producer): The importer marks up a product by 53% when he sells it to a distributor, the distributor sells the product at a 33% markup to the retailer, and the retailer sells the product at a 50% markup to the consumer. This scenario will change depending on the product involved, the packaging and quantities sold, whether one of the parties is bypassed in the chain, and how much warehousing is done in the process.

The Natural Foods Merchandiser reports that Retailers in the natural food industry receive an average 33% markup. Distributors receive a lower margin, while the processor earns more than the retailer. The price mark-up for organic produce retailers is an estimated average 100%, while retailers mark up processed organic food an estimated average 400%.

The following market research firms have information on the pricing and market segments of health and natural foods and ethnic foods categories:

Find/SVP
625 Avenue of the Americas
New York, New York 10011
Tel. (212) 645 4500

Specialty Foods Tracking Index
201 Columbia Turnpike, Suite C
Florham Park, New Jersey 07932
Tel. (201) 966 6935

The second company works with a network of specialty food distributors to obtain data on warehouse withdrawal. It sells reports on 28 specialty foods and their sub-categories for $1200.

III. Distribution Channels

The U.S. processed foods distribution channels are the following (% of sales volume): supermarkets (46.8%), grocery stores (15.7%), convenience stores (12.6%) and other miscellaneous outlets (24.1%). Supermarkets are expected to become more significant in the future.

As the definitions of natural and organic foods are still evolving, it is difficult to estimate what percentages are distributed by the different channels. In 1988 independent stores sold $2.39 billion, chains (companies operating more than 40 stores that sell only natural foods) sold $477 million, and mass market stores sold $679 million (identifiable sales of natural products in supermarkets, drug stores, discount and department stores) of natural foods.

The five main channels of distribution for organic foods and estimated 1989 percentages of sales are: Health/Natural Food stores (43.1), Supermarkets & Grocery stores (29.5) Natural Food warehouses & Buying Clubs (12.0), local farmers' markets (10.6), and mail order direct from farm (4.8). As organic food becomes more accepted in the United States, the relative importance of the channels will change. One analyst forecasts that by 1995 supermarkets will distribute 46% of the total market, up from 29.5% in 1989. This forecast growth in market share will be at the expense of health and natural foods stores, where there will be a decrease from 43.1% in 1989 to 26% in 1995.

The other channels are expected to maintain market share during this time period. The growth in the use of supermarkets would be a result of certification, standardization, and labelling standards being fully established by 1995. This growth will affect industry packaging because supermarkets require bar coding on their packages. Average order size and delivery times will also change.

IV. Outline of Export Strategy

The U.S. market for processed foods is a complex and diverse one. Guatemalan producers should focus on those products in which they have a natural advantage. Some Guatemalan producers are probably already producing natural food without marketing it as such. Usually only producers who sell an end product are able to market foods as natural foods. To produce for the organic food market, however, Guatemalan producers will need to contact one of the certification organizations and analyze the cost of the changes in their production and processing practices needed to be able to produce for the U.S. organic market.

Natural and organic foods may provide an opportunity for producers who do not have a large supply for the conventional markets of the United States, but can ensure the wholesomeness and quality of their product. In order to enter the U.S. market, whether the processed food is natural or ethnic, the Guatemalan producer in almost cases should establish a relationship with a U.S. based importer/distributor. Importers and distributors can provide expertise on regulations and market trends. In most cases producers will need to acquire processing and packaging technology from the United States in order to be competitive.

The following importers and distributors, some of whom have indicated interest in buying Guatemalan products, process and sell products that Guatemala can produce. Guatemalan producers and exporters may contact these parties to explore possible business relationships.

Westbrae Natural Foods
P.O. Box 91-1181
Commerce, California 90091
Tel. (213) 722 1692
Fax (213) 722 9817
Contact: Paul Repeto

This company is interested in buying organically produced concentrates of pear, pineapple, and white grape. These are de-bitterized and de-flavorized and used as sweeteners in cookies. They are usually sold in 55 gallon drums or sometimes in aseptic bulk packs.

Rainbow Natural Foods Distributing
4613 Monaco Pkwy.
Denver, Colorado 80216
Tel. (303) 320 5459
Fax (303) 320 6457
Contact: Dave Cohen

They are interested in finding new sources of dried fruits.

Liberty Imports
66 Broad Street
Carlstadt, New Jersey 07072
Tel. (201) 935 4500
Fax (201) 935 2933
Contact: Ann Adell

Beebe Company
Tel. (415) 421 5362
Contact: Geof Anderson

The company is an importer of dried fruits and vegetables.

LifeTone International Inc.
1 S. Ocean Blvd. Boca Raton, Fl. 33432
Tel. (407) 391 1611
Fax (407) 393 7070
Contact: George Schrenzel

Joyva Corp.
53 Varick Ave.
Brooklyn, N.Y. 11237
Tel. (718) 497 0170
Fax (718) 366 8504
Contact: Milton Radutzsky

Hershey Imports Co. Inc.
700 E. Lincoln Ave. Rahway, New Jersey 07065
Tel. (201) 388 9000
Fax (201) 388 5763
Contact: Mathew Mora

Crystals International Inc.
1111 W. Haines Street
Plant City, Florida 33566
Tel. (813) 685 8582
Fax (813) 754 2691

Edward and Son's Trading Co.Inc.
1115 Lousons Road
Union, New Jersey 07083
Tel. (201) 964 8176
Contact: Joel Dee

Offers technical assistance for the production of juice for use as sweetners and will market in the U.S..

Stretch Island Fruit
E. 370 Greenway
Grapeview, Washington 98546
Tel. (206) 275 6050

Snacks and confections; dietetic foods; packaged dried fruits. This company is interested in collaborating on packaging and design to the extent that Guatemalan producers agree to the organic certification quality control.

Santa Cruz Natural
P.O. Box 369
Chico, California 95927
Tel. (408) 728 0515
Fax (408) 728 0779

This company is a natural juice producer.
Goya Foods
100 Seaview Drive
Seacaucus, N. J.
Tel. (201) 348 4900
Fax (201) 348 6609
Contact: Conrad Colon

They are interested in buying dried peas.

V. Trade Shows

Guatemalan producers can learn more about the U.S. market and display their products by attending selected trade shows. The leading trade show for all processed foods is the annual convention held by the Food Marketing Institute. This convention, known as the "Supermarket Industry Convention and Educational Exposition" will be held this year in Chicago, Illinois, on May 6-9, 1990. Additional information can be obtained by writing to:

Betsy Hoch
Exhibit Sales
Convention Department
Food Marketing Institute
1750 K Street NW
Washington D.C. 20006
Tel. (202) 452 8444
Fax (202) 429 4519

In regard to natural and organic foods, The Natural Foods Expos Office of New Hope Communications is the organizer of two annual trade shows: the Natural Foods Exposition-East and the Natural Foods

Exposition-West. The Exposition-East expo will be held November 1-4, 1990 in Philadelphia, Pennsylvania; Exposition West will be held March 22-25, 1991 in Anaheim, California. At these conventions, exhibition space is rented and educational seminars are offered. An example seminar is "Broadening Your Market," which deals with growing international trade in natural foods and is targeted for importers/exporters and suppliers.

The organizers of the above-mentioned convention can be contacted at the following address:

Natural Foods Expo Office
1301 Spruce Street,
Boulder, Colorado 80302
Tel. (303) 939 8440
Fax (303) 939 9559

Information concerning trade shows for Mexican foods can be obtained by contacting the Mexican-American Grocers Association. This organization also publishes *MAGAzine*, a monthly magazine serving 6,500 retail grocers in the United States. They will hold a Seventh Annual Hispanic Marketing, Sales, and Promotions Conference February 27 through March 2, 1991, at Palm Springs, California. Information can be obtained by writing:

Mexican-American Grocers Association
405 N. San Fernando Road
Los Angeles, California 90031
Contact: Mr. Jerome Lloyd 213 227 1565

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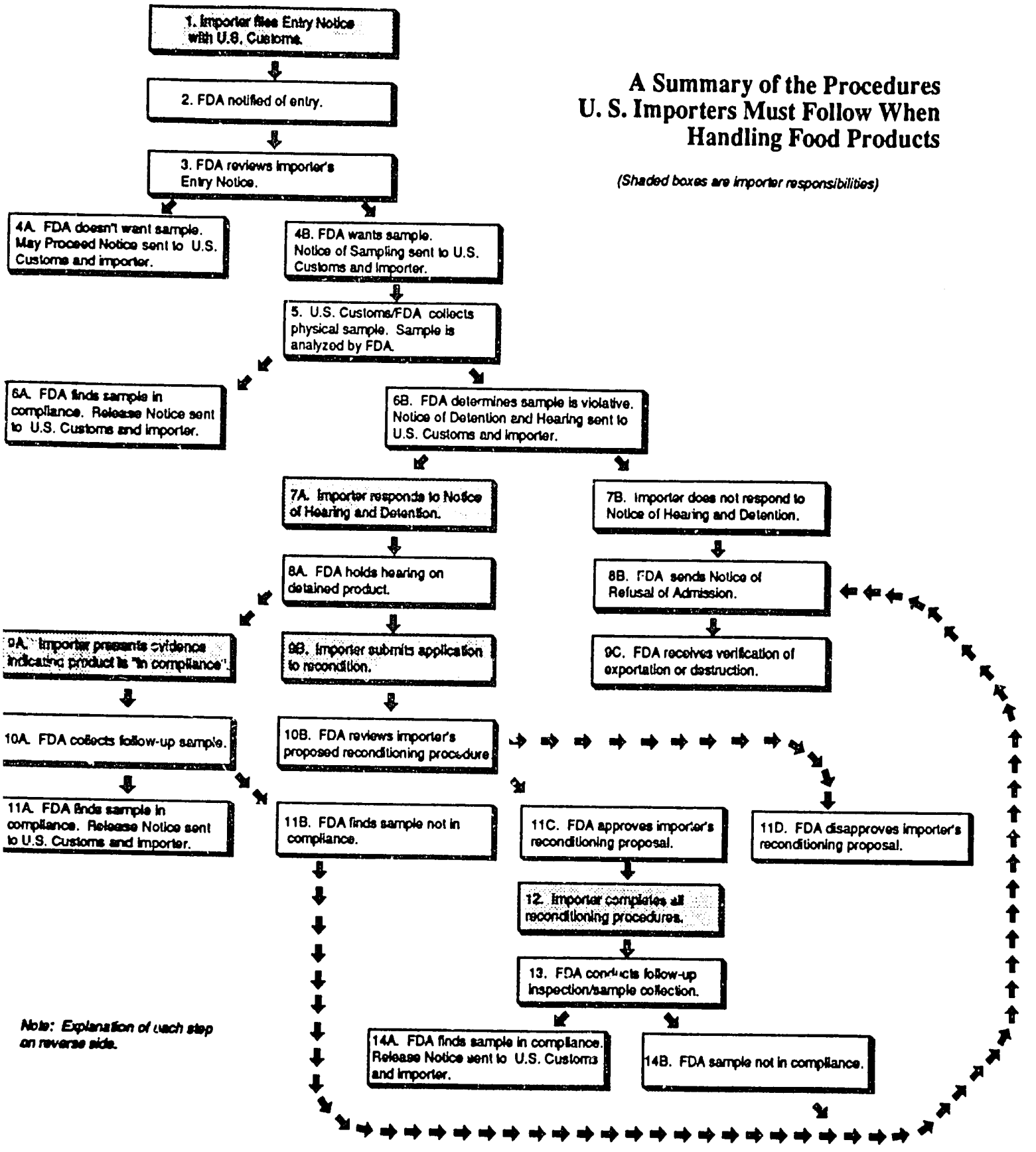
APPENDIX A

IMPORTING FOODS INTO THE UNITED STATES

A Summary of the Procedures U. S. Importers Must Follow When Handling Food Products

(Shaded boxes are importer responsibilities)



Note: Explanation of each step on reverse side.

Food and Drug Administration, Center for Food Safety and Applied Nutrition, Industry Activities Section, Washington, DC 20204

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U.S. Imports of Selected Processed Foods (1985-1989)

(values in U.S. dollars)

	1985	1986	1987	1988	1989	Growth Rate % Last Year/ First Year
Canned Fruit	$283,760,492	$282,344,540	$274,740,944	$296,533,515	$300,384,191	6
Dried Fruit	$42,314,105	$30,625,156	$34,072,433	$40,989,096	$56,464,454	33
Fruit, Miscellaneous Preps	$44,413,554	$50,840,085	$54,464,617	$60,670,449	$49,620,177	12
Fruit & Vegetable Juices	$919,171,268	$730,495,901	$735,019,083	$832,689,787	$738,891,979	-20
Vegetables, Prepared or Preserved	$379,378,411	$383,695,546	$406,859,602	$419,880,737	$496,279,253	31
Vegetables, Dried/Dehydrated	$74,420,179	$81,716,968	$86,412,263	$104,086,289	$124,585,870	67
Spices	$286,722,452	$388,675,635	$434,872,267	$345,949,876	$363,972,601	27
Essential Oils	$110,232,299	$111,610,791	$115,546,480	$147,592,661	$132,958,325	21
Herbs and Drugs	$62,500,816	$36,376,986	$41,799,758	$48,536,251	$99,036,216	58
Ginseng	$6,992,014	$7,071,695	$8,668,082	$9,812,381	$11,631,522	66
Sugar & Misc. Tropical Products	$79,542,541	$94,061,858	$105,067,394	$110,510,134	$80,426,984	1
Other Miscellaneous Products	$948,661,590	$1,130,166,987	$1,254,383,024	$1,353,107,087	$1,332,073,741	40

U.S. Import Statistics: Census Bureau
Imports from all sources
Note: Tariff categories changed when the U.S. adopted the Harmonized System for 1989 trade data

APPENDIX C

Processed Natural and Ethnic Foods Market
Market Expert/Buyer

The following individuals will be traveling to Guatemala to meet with producers to review Guatemalan producers' production capabilities and investigate the potential for importing Guatemalan processed food products into the United States.

Mr. Steve Hoffman is the editor of the Natural Foods Merchandiser. His company, New Hope Communications, publishes this journal and the Organic Times, Delicious, and Expansion Management. These journals have a circulation of 14,000. The company is also sponsor of 2 major trade shows on the East and West Coast with up to 20,000 people attending and 845 exhibit booths. An affiliate, New Hope Research does annual market research as well as customized research. New Hope Communications estimates its 1990 sales at $7.2 million. The Natural Foods Merchandiser is focusing more attention on international trade and world markets and Mr. Hoffman's visit represents an opportunity to explain Guatemala's potential as a natural and organic foods producer to the subscribers of Natural Foods Merchandiser as well as promote the natural foods industry in a new country. Mr. Hoffman is fluent in Spanish and worked for two years in Honduras in agricultural development.

New Hope Communications
1301 Spruce Street
Boulder, Colorado 80302
Tel. (303) 939 8440
Fax (303) 939 9559

Mr. John Willsie is the president of Ambrosia International, Inc. a company involved in the marketing of edible nuts and processed fruit and vegetable products. Tropical fruit products are an area that the company has given special attention in recent years. Bulk nuts, including cashews and macadamia nuts are also of current interest. Mr. Willsie will visit Guatemala to investigate possible business relationships with Guatemalan producers. He will work with contacts in the foodservice industry in the United States on marketing trials of Guatemalan dehydrated refried beans.

Ambrosia International, Inc.
86C-3280 South Shore Dr.
Punta Gorda, Florida 33955
Tel. (813) 639 2850
Fax (813) 639 5048

Appendix D

To obtain the telephone number for U.S. companies listed by city and state, locate the state and city on the area code table below and dial the corresponding area code + 555 1212 and give the name of the company and city to the operator. In the case that the city is not listed in the table below, call any of the area codes corresponding to the company's state + 555 1212 and the operator can provide the correct area code to dial for further information.

place	area code
Alabama	
all locations	205
Alaska	
all locations	907
Arizona	
all locations	602
Arkansas	
all locations	501
Bahamas	
all locations	809
Bermuda	
all locations	809
California	
Anaheim	714
Bakersfield	805
Burbank	818
Huntington Beach	714
Long Beach	213
Los Angeles	213
Riverside	714
Sacramento	916
San Diego	619
San Fernando	818
San Francisco	415
San Jose	408
Santa Ana	714
Van Nuys	818
Canada	
London, Ont.	519
Montreal, Quebec	514
North Bay, Ont.	705
Ottawa, Ont.	613
Quebec, Quebec	418
Thunder Bay, Ont.	807
Toronto, Ont.	416
Trois Rivieres, Quebec	819
Val d' Or, Quebec	819
Colorado	
Aspen	303
Boulder	303
Colorado Springs	719
Denver	303
Pueblo	719
Vail	303
Connecticut	
all locations	203
Delaware	
all locations	302
District of Columbia	
Washington	202
Florida	
Boca Raton	407
Ft. Lauderdale	305
Hialeah	305
Hollywood	305
Jacksonville	904
Key West	305
Miami	305
St. Petersburg	813
Orlando	407
Tampa	813
Tallahassee	904
West Palm Beach	407
Georgia	
Atlanta	404
Columbus	404
Macon	912
Rome	404
Savannah	912
Waycross	912
Hawaii	
all locations	808
Idaho	
all locations	208
Illinois	
Alton	618
Aurora	312
Cairo	618
Casey	217
Chicago	312
Decatur	217
Elgin	312
Highland Park	312
La Grange	312
La Salle	815
Mt. Vernon	618
Peoria	309
Rockford	815
Springfield	217
Indiana	
Evansville	812
Fort Wayne	219
Gary	219
Hammond	219
Indianapolis	317
Kokomo	317
Michigan City	219
South Bend	219
Iowa	
Cedar Rapids	319
Council Bluffs	712
Davenport	319
Des Moines	515
Dubuque	319
Mason City	515
Sioux City	712
Kansas	
Dodge City	316
Kansas City	913
Ottawa	913
Topeka	913
Wichita	316
Kentucky	
Ashland	606
Dade Park	812
Frankfort	502
Lexington-Fayette	606
Louisville	502
Shelbyville	502
Winchester	606
Louisiana	
Baton Rouge	504
Lake Charles	318
New Orleans	504
Shreveport	318
Maine	
all locations	207
Maryland	
all locations	301
Massachusetts	
Boston	617
Framingham	508
New Bedford	617
Plymouth	508
Springfield	413
Worcester	617
Michigan	
Adrian	517
Ann Arbor	313
Battle Creek	616
Detroit	313
Escanaba	906
Flint	313
Grand Rapids	616
Jackson	517
Kalamazoo	616
Lansing	517
Livonia	313
Monroe	313
Saginaw	517
Sault Ste. Marie	906
Sterling Heights	313
Warren	313
Minnesota	
Albert Lea	507
Claremont	507
Duluth	218
Minneapolis	612
Rochester	507
St. Paul	612
Mississippi	
all locations	601
Missouri	
Independence	816
Jefferson City	314
Joplin	417
Kansas City	816
St. Joseph	816
St. Louis	314
Springfield	417
Montana	
all locations	406
Nebraska	
Abbott	308
Lincoln	402
North Platte	308
Omaha	402
Nevada	
all locations	702
New Hampshire	
all locations	603
New Jersey	
Atlantic City	609
Camden	609
Elizabeth	201
Hackensack	201
Jersey City	201
Newark	201
Paterson	201
Trenton	609
New Mexico	
all locations	505
New York	
Albany	518
Babylon	516
Binghamton	607
Buffalo	716
Elmira	607
Greenwich	518
Hempstead	516
Monroe	914
Mt. Vernon	914
New York City	
Bronx	212
Brooklyn	718
Kennedy Int'l Airport	718
La Guardia Airport	718
Manhattan	212
Queens	718
Staten Island	718
Niagara Falls	716
Peekskill	914
Poughkeepsie	914
Rochester	716
Schenectady	518
Stamford	607
Syracuse	315
Troy	518
Utica	315
White Plains	914
Yonkers	914
North Carolina	
Charlotte	704
Durham	919
Greensboro	919
Raleigh	919
Winston-Salem	919
North Dakota	
all locations	701
Ohio	
Akron	216
Alliance	216
Canton	216
Cincinnati	513
Cleveland	216
Columbus	614
Dayton	513
East Liverpool	216
East Palestine	216
Girard	216
Lodi	216
Lorain	216
Marietta	614
Massillon	216
Newark	614
Niles	216
Ravenna	216
Salem	216
Steubenville	614
Toledo	419
Youngstown	216
Zanesville	614
Oklahoma	
Muskogee	918
Oklahoma City	405
Tulsa	918
Oregon	
all locations	503
Pennsylvania	
Allentown	215
Altoona	814
Chester	215
Erie	814
Harrisburg	717
Hershey	717
Johnstown	814
Paoli	215
Philadelphia	215
Pittsburgh	412
Punxsutawney	814
Reading	215
Scranton	717
Swarthmore	215
Upper Darby	215
Valley Forge	215
West Chester	215
Wilkes-Barre	717
Puerto Rico	
all locations	809
Rhode Island	
all locations	401
South Carolina	
all locations	803
South Dakota	
all locations	605
Tennessee	
Chattanooga	615
Knoxville	615
Memphis	901
Nashville	615
Texas	
Amarillo	806
Arlington	817
Austin	512
Beaumont	409
Corpus Christi	512
Dallas	214
El Paso	915
Fort Worth	817
Garland	214
Houston	713
Irving	214
Lubbock	806
Pasadena	713
San Antonio	512
Waco	817
Utah	
all locations	801
Vermont	
all locations	802
Virgin Islands	
all locations	809
Virginia	
Alexandria	703
Chesapeake	804
Hampton	804
Newport News	804
Norfolk	804
Portsmouth	804
Richmond	804
Roanoke	703
Virginia Beach	804
Winchester	703
Washington	
Olympia	206
Pullman	509
Seattle	206
Spokane	509
Tacoma	206
Vancouver	206
Walla Walla	509
West Virginia	
all locations	304
Wisconsin	
Bay City	715
Beloit	608
Madison	608
Milwaukee	414
Wyoming	
all locations	307

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GUATEMALA: PRODUCTS & MARKETS FOR EXPORT GROWTH

FINAL REPORT

MARKET PROFILE: GREETING CARDS

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID / Guatemala*
and
The Non-Traditional Products Exporters Guild of Guatemala

Prepared by: *Ernst & Young*

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MARKET PROFILE:

GREETING CARDS

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GREETING CARDS

I. The Product, its Production and Industrial Outlook

a. Description of Product

The greeting card product line consists of greeting cards, divided between everyday (conventional and studio) and seasonal cards, wrapping supplies (paper and accessories), and paper party goods (table clothes, cups, plates and napkins). Within the greeting card segment, the industry is almost equally divided (50%) between everyday and seasonal cards, although the share for everyday cards is slowly increasing. Seasonal cards are devoted to holiday or festive periods. The most popular seasonal card-sending holidays are, in order, Christmas, Valentine's Day, Easter, Mother's Day, Father's Day, and Graduation. Birthdays are the most popular of the everyday occasions. Some specialty items, such as calendars, stationary, plaques, candles, and related gift items are also being produced as part of the greeting card product line. Greeting cards come in various assortments, lot sizes, and configurations. Price is a clear distinguishing factor.

Greeting cards can be as simple as a small card that is attached to a gift, or as ornate as cards that play music and have blinking lights. Greeting cards serve to express an idea or feeling from the giver to the receiver or to commemorate an occasion. In some cases, greeting cards are given in place of a tangible gift. Greeting cards are a diverse product and there are a variety of printing processes, designs, and messages.

The industry standard is 12 cards to a box. One company surveyed indicated that they sell Christmas cards in 20 card boxes. Specialty cards will occasionally come 6 cards to a box. Cards that are produced for the supermarket and drug store market must have a bar code on the back side of the card. The more highly stylized cards, however, which are sold in specialty shops, often do not have a bar code on the back since it is believed it detracts from the attractiveness of the card. Envelopes are a standard component of the greeting card product. They are sometimes stylized with colors or printed to match the accompanying card. Recently, stylized balloons carrying messages are being produced to accompany a greeting card.

The larger manufacturers of greeting cards normally provide retailers in the United States with the appropriate display fixtures. This custom is considered necessary if the merchandise is to be handled well and look presentable. Moreover, retailers often require assistance in getting more productivity out of limited floor space. Traditional fixtures for cards include some sort of display case combined with storage drawers to

maintain inventory. Metal racks are also used as well as cardboard racks which fold out of the box in which the cards are shipped.

b. Production Considerations

The majority of greeting cards in the United States are produced with a lithography process. Silk screening is less common because it is more expensive. Some cards that have holographs printed on special materials are produced through flexography. The principal consideration in greeting card production is the design and the quality of the paper used in the production. Should the manufacturer be producing other products within the larger product line, such as paper party goods, calendars, stationary, etc., different raw materials will be required. If tins or mugs are included in a product line, the greeting card manufacturer will purchase them ready-made from an outside source.

Most manufacturers of greeting cards will employ a full-time staff of artists, art directors, writers, and creative planners. Designs of everyday cards begin approximately 18 months in advance. Finished designs of seasonal cards start into production about 15 months before the holiday. The majority of the design for everyday cards are replaced every 15 months, but birthday and get-well cards are replaced every 12 months; and sympathy, wedding, and baby congratulations, every 18 months. The life of a gift-wrap design is longer, occasionally exceeding two years.

Designs are a critical element of the production process. Hallmark, for example, at any given time, has an average of 32,000 different card designs in its entire line.

Greeting card manufacturers give considerable emphasis to the use of the proprietary characters in card design. Licenses for the use of such characters as Garfield, Super Powers (Superman, Batman, etc.), Sesame Street characters, Loony tunes (bugs Bunny, Tweet Bird, Porky Pig, etc.), Disney characters, Strawberry Shortcakes, and many others are currently controlled by the larger manufacturers. Licenses are usually from one to four years, and some are non-exclusive.

c. Industrial Outlook

Greeting cards are classified under SIC code 2771, encompassing establishments engaged in the designing, publishing, and/or printing, by any process, of greeting cards for all occasions. The greeting card industry in the United States is comprised of three large companies, Hallmark Cards, Inc. (Kansas City, Missouri), American Greetings Corporation (Cleveland, Ohio), and Gibson Greetings, Inc. (Cincinnati, Ohio), holding approximately 80% of the market. The remainder of the industry consists of many small companies, approximately 500. Hallmark in the market leader, with approximately 40% market share, followed by American

Greetings with 30% market share. Gibson Greetings has approximately 10% market share.

The Greeting Card industry experts believe that the three industry leaders penetrate 70-80% of the retail outlets selling greetings cards. The remaining 20% is serviced by the smaller companies. As a result, the greeting card market is considered a two-tiered one. Approximately 5-10% of the industry's current sales to customers (retail outlets) are not serviced by the industry leaders, primarily because the outlets are simply too small for the the leaders to sell to on a cost-effective basis.

The U.S. Department of Commerce estimates of the U.S. market for greeting cards (sales, in million dollars) is provided below

	1987	1988	1989	1990	Percent Change 88/87	89/88	90/89
In nominal dollars							
Greeting cards	2877	3134	3373	3612	8.9	7.6	7.1
In constant 1987 dollars							
Greeting cards	2877	2954	3022	3082	2.7	2.3	2.0

The sales of greeting cards are seasonal, peaking in the July - December period, requiring careful planning and forecasting. Employment is therefore also seasonal in order to meet demand.

The whole greeting card industry is characterized by intense competition, particularly price competition among the leaders. It is a mature industry. Consumption of cards grew rapidly from the mid-1960's into the 1970s, and is currently projected to increase at an average of 3% between 1987 and 2015. The small card company portion of the industry is healthy and, although the life of a small card company is short, any one of them could become another leader quickly. This part of the industry is considered inventive and daring, especially in designing products and finding market niches. Among the most noteworthy small companies are:

Masterpiece Studios, Inc.
Cicero, Illinois

Carolyn Bean Publishing Company
San Francisco, California

Paper Moon Graphics
Chicago, Illinois
Distinguished for its quirky humor and striking drawings.

Avanti, Inc.
Detroit, Michigan
Known for its contemporary color photography.

Broom Designs, Inc.
Detroit, Michigan

Current, Inc.
Colorado Springs, Colorado

Maine Line
Rockport, Maine

Recycled Paper Products, Inc.
Chicago, Illinois

Sun Cards
Washington, D.C.

Both imports and exports of greeting cards represent a very small percentage of the U.S. market. U.S. distributors have not imported many greeting cards in the past because quality has been poor and/or erratic. A U.S. industry expert reported that most cards imported come from Italy, United Kingdom, Spain, England, Canada, Mexico and Germany. Many U.S. card companies will sell licensing rights to manufacture their product in these countries.

The fastest growing area of the industry is in the non-occasion card segment, where a projected annual growth of sales of 15-20 percent is expected. There is very little government regulation of the industry.

Some of the demographic trends that are affecting the themes of card lines in the United States are the increased percentage of elderly people in the population, the increase in women working outside of the home, and health and fitness concerns. One trend affecting production materials is a growing demand for biodegradable, recycled and recyclable greeting cards.

II. The Market

a. Market Demand and Main Market Segments

The U.S. Greeting Card Association estimated that in 1989 U.S. consumers purchased 7.1 billion greeting cards, generating sales of approximately $3.9 billion. The average person in the U.S. receives 31 cards a year, seven of which are birthday cards.

Consumers view greeting cards as a means of personal expression. The highest frequent purchasers of greeting cards are middle-aged, middle

income women. Most Americans consider themselves too busy to write a letter, even a short note on a small card.

According to the U.S. Greeting Card Association, Hispanics and other ethnic groups are becoming significant consumer groups for greeting cards. A few small firms, as well as Gibson Greeting Cards, have started offering Spanish language cards in the United States.

b. Major Factors in the Purchasing Decision

Greeting cards are purchased for a variety of reasons. Some consumers prefer an attractive design with no message, allowing the buyer to personalize it with his/her own message. Other cards are produced to supply a message as a service for the purchaser. Greeting cards can be purchased instead of a gift. In this case, the greeting card tends to be highly stylized and higher priced.

Price, followed by the design and message, are the principal factors motivating a consumer to purchase a greeting card. It is important that greeting cards and related products are readily available, since brand awareness, in general, is low. The physical placement of the product is another important factor in its consumption.

c. Pricing Considerations

Greeting cards range in price from $.50 to $7.50, with the average counter card retailing for around $1.50. Cards featuring fancy production techniques and new technologies are at the top of this price scale. Packaged invitations and notes range from $.20 to $.25.

One importer described the following pricing scenario for an imported card: The manufacturer sells the card to the distributor for a landed import price (example: New York CIF) of 12 to 30 cents, the wholesaler sells the card for 75 cents to the retailer, and the retailer sells the card to the consumer for $1.50.

The price of greeting cards are closely tied to the price of paper. Paper prices in the United States are currently steady after a period of rapid increase late in 1987 and throughout 1988.

III. Distribution Channels

a. How the Product Reaches the End User

Greeting cards are sold in supermarkets, drug stores, grocery stores, gift shops, card stores, conventional department stores, and by mail order. A few of the up-scale department stores which used to carry greeting cards have since stopped carrying them, stating it did not fit within their image of

fashionable merchandise. Supermarkets and drug stores tend to buy more standardized cards and prefer cards from the large producers. Gift shops look for more stylized cards and carry smaller quantities of a greater variety of cards. The dominant practice for stores carrying cards from one of the three industry leaders is not to carry the line of any other competitor, but there are frequent deviations.

The distribution channels of this industry reflect the division between the few very large producers and the many small producers. The larger firms sell directly to the retail chain buyers. If the retail account has several branches, sales calls are made to the central offices or district headquarters or both. A merchandising service force will then call on the stores themselves. Such sales calls are costly. To cover costs requires a minimum display space (estimated at 48 linear feet for everyday merchandise alone) and reasonably large orders on a regular basis. The companies often supply part-time service personnel to service the large retail chains. These personnel go into the stores to arrange the displays, pull obsolete inventory, and re-order to restock the stores' displays. Obviously, the smaller retail outlets do not receive such service, and instead supplied by distributors of greeting cards. Smaller firms use distributors for certain sales, but will occasionally go direct if the account is large enough.

Hallmark, in the early 1980's, began to franchise gift shops to carry its entire product line exclusively. The other industry leaders soon followed suit, removing outlets from the use of the other manufacturers. This trend is continuing. Larger medium sized companies have their own representatives but usually don't control the retail outlets through franchises. Some of these companies are also willing to import lines of greeting cards to supplement their lines. The medium and small companies use independent representatives to sell their cards.

The large greeting card companies sell only cards produced within the company; they are not interested in cards from other manufacturers. Often, if a small firm's product line is successful, it becomes an acquisition target for one of the three industry leaders.

The independent sales representative commission rate ranges from 15 to 30%. Sales representatives who only sell cards earn 15% of sales, and those that provide the service of stocking, reordering, and in-store servicing can receive up to 30%. In order for the sales commission to be large enough to be worthwhile for a sales representatives to work with a producer, the producer needs to offer a line broad enough so that an average retailer's purchase order will be in the range of $500 to $1000. Assuming a retail price of $10.00 per dozen cards, this means that the line of cards would have to include 50 to 100 different cards.

The few large card producers are responsible for most importing of greeting cards. These cards are produced by affiliate companies. Some of

these operations involve exporting of raw materials to the foreign affiliate for re-export of the finished product.

b. Terms of Trade

Most greeting card manufacturers will provide credit to stores for seasonal merchandise for an average of six months and in a few instances for as long as eleven months. Consistent with industry practice, most manufacturers allow retailers to return unsold seasonal cards.

c. Service Requirements of the Product

In addition to providing retailer assistance, whether in the provision of the actual display or stocking the display as needed, sales representatives are also responsible for filling orders. Particularly at the height of demand, turnaround time on orders is critical. The larger manufacturers have physical distribution centers to respond more quickly to requests; large distributors will also.

d. Import Duties

Guatemala is a beneficiary country of both the Generalized System of Preferences (GSP) and the Caribbean Basin Economic Recovery Act (CBI). As a result, greeting cards, and related products, would be imported free of duty. This gives Guatemala an advantage over non-GSP and non-CBI beneficiary countries, most of which must pay an average duty of 4.9% on the landed value. Since Guatemala currently has local paper and ink supplies, it should have no problem in meeting the provisions of the CBI. However, if quantities exported exceed the local supply of paper and ink, efforts will have to be made to ensure the 35% direct processing provision is complied with. U.S. Customs will require a completed Certificate of Origin-Form A at the point of entry. The Harmonized Tariff Schedule Number for the product category is 4909.00.40.20.2.

IV. Recommended Export Strategy

The U.S. Hispanic population is one of the fastest growing ethnic groups in the United States. In the decade of the 1980's, the U.S. Hispanic population increased by 33%, a rate five times greater than the rest of the population. The U.S. Hispanic Chamber of Commerce estimates that this group of the population has more than US$70 billion of purchasing power. Consequently, Guatemalan greeting card producers may want to focus on the market for U.S. Hispanic/Latin American greeting cards, which is growing. Guatemalan designers and authors could learn to produce cards for this market more easily than for the English language market.

These cards can have messages in Spanish and/or English, have Latin American themes, or have themes that appeal to U.S. Hispanics.

Even U.S. Hispanics who have lived in the United States for most of their lives appreciate receiving a card with a message in Spanish. It should not be assumed that cards that sell well in Latin America will appeal equally to U.S. Hispanic consumers. In addition, the different sub-groups (Cuban, Puerto Rican, Mexican, and others) have different tastes that need to be reflected in the design and message of the card.

One of the major U.S. greeting card companies, American Greetings, surveyed the U.S. Hispanic market and found that 90% of the card buyers are U.S. Hispanic women. The women respondents indicated that the cards currently available in Spanish were inferior to English language cards, in terms of variety, design, quality of photographs, and overuse of loud colors. They said that they buy cards in Spanish for older relatives and friends residing in the U.S., and to send to relatives living in Latin America. However, they tended to buy English language cards for young relatives. American Greeting also found that card writers prefer to write their own personal message on the card in order to incorporate any regional dialect.

The three major card companies all have U.S. Hispanic lines of greeting cards. Hallmark produces greeting cards in Mexico and Gibsons is understood to have a supply arrangement in Guatemala. One of the major companies is able to target Mexican, Cuban, and Puerto Rican customers by providing separate card lines. Some of the themes and types of the major producers' cards are the following: cards with flowers; cards about friendship, love, and weddings; religious cards; cards with pets and cheerful messages; graduation cards; musical cards and cards with lights. Prices of U.S. Hispanic greeting cards tend to be in the same range as other greeting cards and they are sold through the established distribution channels.

For whatever market that Guatemala produces greeting cards for, they may want to copyright those they plan to sell in the U.S. market, in order to protect their design. It is relatively inexpensive to copyright a greeting card in the United States, however the legal costs of defending a product from copyright infringement can be very high. The Basics of Copyright and Trademark Law is a publication that explains how to obtain a copyright. It can be obtained from:

The U.S. Greeting Card Association
1350 New York Avenue, NW, Suite 615
Washington D.C. 20005

One means of obtaining a sales representative is through the classified advertising section of the Gift and Stationery Business Magazine and/or Greetings Magazines. Prices of advertising and other information can be obtained by writing to:

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Classified Advertising Department
Gift & Stationery Business
1515 Broadway
New York, New York 10036

Classified Advertising Department
Greetings Magazine
309 5th Avenue
New York, New York 10016

Another means of locating a sales representative is to purchase the annual directory of greeting Card Sales Representatives, which can be purchased by writing to:

The U.S. Greeting Card Association
1350 New York Avenue, NW, Suite 615
Washington D.C. 20005

The annual National Stationery Show is an opportunity to display merchandise and develop industry and sales representative contacts. In 1990, the show will be held May 20-23 at the Jacob Javits Convention Center in New York City, New York. Information about this and future shows can be obtained from any of the above-mentioned organizations.

Information concerning trade shows for U.S. Hispanic products can be obtained by contacting the Mexican-American Grocers Association. This organization also publishes MAGAzine, a monthly magazine serving 6,500 retail grocers in the United States. They will hold a Seventh Annual Hispanic Marketing, Sales, and Promotions Conference February 27 through March 2, 1991 at Palm Springs, California.

Mexican-American Grocers Association
405 N. San Fernando Road
Los Angeles, California 90031
Contact: Mr. Jerome Lloyd 213 227 1565

Appendix A

U.S. Publishers of Hispanic Greeting Cards

The following is a list of U.S. Publishers of Hispanic Greeting Cards

Alfred Mainzer Inc.
27-08 40th Ave.
Long Island City, New York 11101
Tel. (718) 392 4200

American Greetings Corporation
10500 American Road
Cleveland, Ohio 44144
Tel. (216) 252 7300

Gibson Greetings Inc.
2100 Section Road
Cincinnati, Ohio 45222
Tel. (513) 841 6600

Hallmark Cards, Inc.
2501 McGee
Kansas City, Mo. 64108
Tel. (816) 274 3111

Paramount Cards Inc.
400 Pine Street
Pawtucket, Rhode Island 02863
Tel. (401) 726 0800

Sangamon Co.
Route 48 West
Taylorville, Illinois 62568
Tel. (217) 824 2261

APPENDIX B

U.S. Companies Interested in Receiving Samples of Greeting Cards from Guatemala

The following companies indicated interest in receiving sample cards for market testing:

Con Sabor Latino
3458 East Olympic Blvd.
Los Angeles, California 90023
Tel. (213) 265 3820
Contact: Manager Bob Martinez. Producers of Hispanic greeting cards. Biggest sellers are Valentines, Mothers Day, and Christmas cards. 80% of his cards are bought by women. This company is interested in receiving samples and may be interested in purchasing from an outside company.

Mission Traders
705 N. Carolina Ave. SE
Washington D.C.
Tel. (202) 546 3040
Contact: Sue Kilgore. This card and gift retailer imports many products from around the world. They were impressed with the quality of some sample Guatemalan cards and selected some for market testing. Retail prices range from 50 cents for small gift enclosures to 1.25, with 2.50 to 3.50 for special hand-painted cards.

Freedom Greeting Card
1619 Hanford Street
Levittown, Pennsylvania
Tel. (215) 945 3300
Contact: Jerry Wolk
This greeting card company is the leading producer of greeting cards for U.S. blacks and is now developing a line of greeting cards for U.S. Hispanics. They may be interested in importing cards for this line.

Editorial El Mundo
1796 Columbia Road
Washington D.C.
Tel. (202) 387 2831
Contact : Leonor Rodriguez. This company buys cards from Spain, Mexico, and Peru and personalizes them with social announcements for sale in the United States.

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China Books and Periodicals
2929 24th Street
San Francisco, Ca. 94110.
Tel. (415) 282 2994
Contact: Nancy Ippolito
They import cards and calendars from China. They are interested in receiving samples of greeting cards from Guatemala.

Syracuse Cultural Workers
Box 6367
Syracuse, New York 13217
Tel. (315) 474 1132
Sells "progressive or social issue" cards and posters. Estimated 1989 cards sales were $100,000 to $125,000.

Appendix C

To obtain the telephone number for U.S. companies listed by city and state, locate the state and city on the area code table below and dial the corresponding area code + 555 1212 and give the name of the company and city to the operator. In the case that the city is not listed in the table below, call any of the area codes corresponding to the company's state + 555 1212 and the operator can provide the correct area code to dial for further information.

place	area code
Alabama	
all locations	205
Alaska	
all locations	907
Arizona	
all locations	602
Arkansas	
all locations	501
Bahamas	
all locations	809
Bermuda	
all locations	809
California	
Anaheim	714
Bakersfield	805
Burbank	818
Huntington Beach	714
Long Beach	213
Los Angeles	213
Riverside	714
Sacramento	916
San Diego	619
San Fernando	818
San Francisco	415
San Jose	408
Santa Ana	714
Van Nuys	818
Canada	
London, Ont.	519
Montreal, Quebec	514
North Bay, Ont.	705
Ottawa, Ont.	613
Quebec, Quebec	418
Thunder Bay, Ont.	807
Toronto, Ont.	416
Trois Rivieres, Quebec	819
Val d' Or, Quebec	819
Colorado	
Aspen	303
Boulder	303
Colorado Springs	719
Denver	303
Pueblo	719
Vail	303
Connecticut	
all locations	203
Delaware	
all locations	302
District of Columbia	
Washington	202
Florida	
Boca Raton	407
Ft. Lauderdale	305
Hialeah	305
Hollywood	305
Jacksonville	904
Key West	305
Miami	305
St. Petersburg	813
Orlando	407
Tampa	813
Tallahassee	904
West Palm Beach	407
Georgia	
Atlanta	404
Columbus	404
Macon	912
Rome	404
Savannah	912
Waycross	912
Hawaii	
all locations	808
Idaho	
all locations	208
Illinois	
Alton	618
Aurora	312
Cairo	618
Casey	217
Chicago	312
Decatur	217
Elgin	312
Highland Park	312
La Grange	312
La Salle	815
Mt. Vernon	618
Peoria	309
Rockford	815
Springfield	217
Indiana	
Evansville	812
Fort Wayne	219
Gary	219
Hammond	219
Indianapolis	317
Kokomo	317
Michigan City	219
South Bend	219
Iowa	
Cedar Rapids	319
Council Bluffs	712
Davenport	319
Des Moines	515
Dubuque	319
Mason City	515
Sioux City	712
Kansas	
Dodge City	316
Kansas City	913
Ottawa	913
Topeka	913
Wichita	316
Kentucky	
Ashland	606
Dade Park	812
Frankfort	502
Lexington-Fayette	606
Louisville	502
Shelbyville	502
Winchester	606
Louisiana	
Baton Rouge	504
Lake Charles	318
New Orleans	504
Shreveport	318
Maine	
all locations	207
Maryland	
all locations	301
Massachusetts	
Boston	617
Framingham	508
New Bedford	617
Plymouth	508
Springfield	413
Worcester	617
Michigan	
Adnan	517
Ann Arbor	313
Battle Creek	616
Detroit	313
Escanaba	906
Flint	313
Grand Rapids	616
Jackson	517
Kalamazoo	616
Lansing	517
Livonia	313
Monroe	313
Saginaw	517
Sault Ste. Marie	906
Sterling Heights	313
Warren	313
Minnesota	
Albert Lea	507
Claremont	507
Duluth	218
Minneapolis	612
Rochester	507
St. Paul	612
Mississippi	
all locations	601
Missouri	
Independence	816
Jefferson City	314
Joplin	417
Kansas City	816
St. Joseph	816
St. Louis	314
Springfield	417
Montana	
all locations	406
Nebraska	
Abbott	308
Lincoln	402
North Platte	308
Omaha	402
Nevada	
all locations	702
New Hampshire	
all locations	603
New Jersey	
Atlantic City	609
Camden	609
Elizabeth	201
Hackensack	201
Jersey City	201
Newark	201
Paterson	201
Trenton	609
New Mexico	
all locations	505
New York	
Albany	518
Babylon	516
Binghamton	607
Buffalo	716
Elmira	607
Greenwich	518
Hempstead	516
Monroe	914
Mt. Vernon	914
New York City	
Bronx	212
Brooklyn	718
Kennedy Int'l Airport	718
La Guardia Airport	718
Manhattan	212
Queens	718
Staten Island	718
Niagara Falls	716
Peekskill	914
Poughkeepsie	914
Rochester	716
Schenectady	518
Stamford	607
Syracuse	315
Troy	518
Utica	315
White Plains	914
Yonkers	914
North Carolina	
Charlotte	704
Durham	919
Greensboro	919
Raleigh	919
Winston-Salem	919
North Dakota	
all locations	701
Ohio	
Akron	216
Alliance	216
Canton	216
Cincinnati	513
Cleveland	216
Columbus	614
Dayton	513
East Liverpool	216
East Palestine	216
Girard	216
Lodi	216
Lorain	216
Marietta	614
Massillon	216
Newark	614
Niles	216
Ravenna	216
Salem	216
Steubenville	614
Toledo	419
Youngstown	216
Zanesville	614
Oklahoma	
Muskogee	918
Oklahoma City	405
Tulsa	918
Oregon	
all locations	503
Pennsylvania	
Allentown	215
Altoona	814
Chester	215
Erie	814
Harrisburg	717
Hershey	717
Johnstown	814
Paoli	215
Philadelphia	215
Pittsburgh	412
Punxsutawney	814
Reading	215
Scranton	717
Swarthmore	215
Upper Darby	215
Valley Forge	215
West Chester	215
Wilkes-Barre	717
Puerto Rico	
all locations	809
Rhode Island	
all locations	401
South Carolina	
all locations	803
South Dakota	
all locations	605
Tennessee	
Chattanooga	615
Knoxville	615
Memphis	901
Nashville	615
Texas	
Amarillo	806
Arlington	817
Austin	512
Beaumont	409
Corpus Christi	512
Dallas	214
El Paso	915
Fort Worth	817
Garland	214
Houston	713
Irving	214
Lubbock	806
Pasadena	713
San Antonio	512
Waco	817
Utah	
all locations	801
Vermont	
all locations	802
Virgin Islands	
all locations	809
Virginia	
Alexandria	703
Chesapeake	804
Hampton	804
Newport News	804
Norfolk	804
Portsmouth	804
Richmond	804
Roanoke	703
Virginia Beach	804
Winchester	703
Washington	
Olympia	206
Pullman	509
Seattle	206
Spokane	509
Tacoma	206
Vancouver	206
Walla Walla	509
West Virginia	
all locations	304
Wisconsin	
Bay City	715
Beloit	608
Madison	608
Milwaukee	414
Wyoming	
all locations	307

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