

ESTABLISHING A FAST FOOD INDUSTRY IN VENEZUELA

by

María Gabriela Castillo

A Research Paper

**Submitted in Partial Fulfillment of the
Requirements for the
Master in Science Degree in
Management Technology**

**Approved for Completion of 3 Semester Credits
735-029 Field Project**

by

Dr. Dennis R. Vanden Bloomen

**The Graduate College
University of Wisconsin - Stout
August 2000**

**The Graduate School
University of Wisconsin-Stout
Menomonie, WI 54751**

ABSTRACT

<u>Castillo</u>	<u>María</u>	<u>G</u>
(Writer)(Last Name)	(First)	(Initial)

ESTABLISHING A FAST FOOD INDUSTRY IN VENEZUELA

(Title)

<u>Management Technology</u>	<u>Dr. Dennys R. Vanden Bloomen</u>	<u>October, 2000 56</u>
(Graduate Major)	(Research Adviser)	(Month/Year) (#Pages)

Publication Manual of the American Psychological Association
(Name of Style Manual Used in this Study)

This Paper presents a comprehensive look at the issues involved in establishing a fast food industry in Venezuela.

Venezuela, with a population of 23.7 millions and growing at a rate of 2.0 percent annually, is a country that represents important market opportunities for fast food industries to establish in Venezuela. Consumer expenditures for food were almost \$ 6,467 million (USD) in 1996, representing 35 percent of the total consumer expenditure. Fast food alternatives have become very important to the large and affluent business people in Venezuelan middle and upper class, with a preference shown for international fast food, stores design and food quality. This is especially evident considering that the United States is both Venezuela's largest trading partner, and largest single investor. Imports from the United States were near \$ 4.6 billion (USD) in 1996, representing 44 percent of all the imports that year.

Venezuela experienced a dramatic slowdown in economic growth during 1998. Real GDP grew less than 1 percent in 1998 and shrank by 5 percent during 1999. This happened as

the result of the drop in oil prices, which is Venezuela's principal exporting product, and the international financial crisis that began in Asia in mid-1997. Despite Venezuela's current economic difficulties, US exports continue to grow and will most likely pass the \$ 6 billion (USD) mark in the present year.

The domestic consumption of the product is calculated based on the size of the market (franchising marketing data, which was 10 millions USD in national franchises; 17 millions USD for imported franchises and 3 millions USD for exported franchises, all of these data in 1999). It is important to mention that franchising in Venezuela has more than doubled in the past three years. Fast food companies represent almost 24 percent of total franchises. It represents one of the sectors of the Venezuelan economy that have had risen more, approximately 20 percent per year.

The main domestic competitors are Chipi's, Rockies's Burger and Pollos Arturos. The American franchises that compete in this arena are Mc Donald's, Burger King and Wendy's. Third country competition comes from Europe, France with its franchise Crepe De France.

Among the issues to consider when entering this very particular market are the franchising systems and licensing. Most of the fast food restaurants are franchising systems in Venezuela. Location of the restaurants also becomes an important fact to consider when penetrating this niche. The best ways of starting this business is locating the restaurant at mall, in the food courts, or in the streets, selling the product in carts or kiosks.

The distribution channel must be loaded buying from the wholesalers or middlemen that give better prices and establishing the industry as retailer to serve the customers.

ACKNOWLEDGMENTS

I wish to thank Dr. Dennis R. Vanden Bloomen for his willingness to offer expertise, for his guidance, and for his patience during the development of this study.

I would like to give special thanks to Professor Kevin Mc Donald's for his support.

I also want to give special thanks to my husband, Rolando Vetencourt, for his permanent interest and support to make real this project.

María Gabriela Castillo

DEDICATION

To my parents for their continuous support

To my brother because I have to be an example for them

To my husband because of all the effort that this required to be together

Thanks to all of you.

Gaby

ESTABLISHING A FAST FOOD RESTAURANT IN VENEZUELA

Table of Contents

Topic	Page
Cover page	
Abstract	i
Acknowledgments	iv
Dedication	v
Table of Contents	2
List of Tables and Figures	3
Regional Map	5
Country Map	6
Executive Summary	7
Introduction	8
Country Background Information	9
Specific Product	32
Domestic Consumption	32
Third Country Competition	35
Market Trends	36
Issues to Consider When Entering this Market	40
Current Prices of Goods	44
Specific Distribution and Sales Channels	48
Conclusion and Recommendations	53
Bibliography	55
Appendices	
A. Key Industry Contacts	A-1...A-3
B. Crepes carts and kiosks	B-1...B-2
C. Ways to fold crepes	C-1

List of Tables and Figures

Type	Page
Map of South America	5
Map of Venezuela	6
Table 1: Venezuela's trade in USD billions	17
Table 2: Top importing and exporting countries 2000-Venezuela	17
Table 3: Top imports and exports products 2000-Venezuela	18
Table 4: Top 10 US exports to Venezuela	23
Table 5: Top US imports from Venezuela 1996-FAS Value	24
Table 6: Exchange Rate Trends in the Past Six Years (1994-1999)	34
Table 7: Total consumer expenditure 1977-1996 (millions USD). Venezuela	36
Table 8: Economic indicators (percentages of the total GNP)	36
Table 9: Consumer expenditure on food, Venezuela (1977-1996)	37
Table 10: Franchising marketing data (in millions USD) for Venezuela (1997-1999)	38
Table 11: Venezuelan population from 1960 to 2050	39
Table 12: Venezuela's current age distribution (10-year intervals)	40
Table 13.A-C: Current prices of goods for American Franchises	44
Table 13. A. Mc Donald's	44
Table 13. B. Wendy's	45
Table 13. C. Burger King	45
Table 13.D-F: Current prices of goods for Venezuelan Franchises	46

Table 13. D. Chipi's	46
Table 13. E. Rockie's Burger	46
Table 13. F. Pollos Arturos	46
Table 13.G: Current prices of goods for French Franchises Crepe De France	47
Table 14: Proposed prices of gods for Bonne Crepe	47
Figure 1: Inflation rates	35
Figure 2: Consumer Expenditure by Object. 1996	37
Figure 3: Recommended Channels of Distribution	49

South America - Regional Map



Copyright © 1998 Grolier Interactive Inc.

Venezuela - Country Map



Executive Summary

This Research Paper presents a comprehensive look at the issues involved in establishing a fast food in Venezuela. Crepe was the product specifically selected for this study, which includes country background information, figures of the domestic consumption, market trends, current prices of goods, third country competition, as well as an overview of the distribution and sales channels.

Venezuela, with a population of 23.7 millions and growing at a rate of 2.0 percent annually, is a country that represents important market opportunities for fast food industries to establish in Venezuela. Consumer expenditures for food were almost \$ 6,467 million (USD) in 1996, representing 35 percent of the total consumer expenditure. Fast food alternatives have become very important to the large and affluent business people in Venezuelan middle and upper class, with a preference shown for international fast food, stores design and food quality. This is especially evident considering that the United States is both Venezuela's largest trading partner, and largest single investor. Imports from the United States were near \$ 4.6 billion (USD) in 1996, representing 44 percent of all the imports that year.

Venezuela experienced a dramatic slowdown in economic growth during 1998. Real GDP grew less than 1 percent in 1998 and shrank by 5 percent during 1999. This happened as the result of the drop in oil prices, which is Venezuela's principal exporting product, and the international financial crisis that began in Asia in mid-1997. Despite Venezuela's current economic difficulties, US exports continue to grow and will most likely pass the \$ 6 billion (USD) mark in the present year. The oil prices have been increasing in 36.5 percent from December 1999 to August 2000.

The domestic consumption of the product is calculated based on the size of the market (franchising marketing data, which was 10 millions USD in national franchises; 17 millions USD for imported franchises and 3 millions USD for exported franchises, all of these data in 1999). It is important to mention that franchising in Venezuela has more than doubled in the past three years. Fast food companies represent almost 24 percent of total franchises. It represents one sector of the Venezuelan economy that have had risen more, approximately 20 percent per year.

The main domestic competitors are Chipi's, Rockies's Burger and Pollos Arturos. The American franchises that compete in this arena are Mc Donald's, Burger King and Wendy's. Third country competition comes from Europe, France with its franchise Crepe De France.

Among the issues to consider when entering this very particular market are the franchising systems and licensing. Most of the fast food restaurants are franchising systems in Venezuela. Location of the restaurants also becomes an important fact to consider when penetrating this niche. The best ways of starting this business is locating the restaurant at a mall, in food courts, or in the streets, selling the product in carts or kiosks.

Recommendations and suggestions are to buy, whenever possible, directly from the wholesalers or middlemen that give better prices; to start with catering to test the market reaction, and to use a sales agent to help selling franchises once the fast food restaurant enters in a franchising system.

Introduction

Venezuela is a country that represents important market opportunities for the fast food industry. Due to its location, history and economic conditions, the country has absorbed the eating culture from Europe and the United States.

In this report you will find information concerning the establishment of a crepe restaurant within the fast food industry in Venezuela. The research paper starts with a narrative of the physical attributes and demographics, relation with the US, imports and exports data, distribution channels, business environment and economic and political situation of the country.

Information describing Venezuela's population, age distribution and the projected size of its market, as related to the target market, is presented (Tables 11 & 12). The domestic consumption of fast food is a direct consequence of the main economic activity of Venezuela, oil producer. International oil and manufacturing companies have established their host offices there, demanding for fast food alternatives.

In Venezuela, distribution channels vary according to the products and commodities involved. Alternatives for the distribution of the raw materials for fast food companies are suggested and discussed. The country's fast food industries, products, capacity and competitiveness are described; the competition is compared by prices and variety (see table 13.A-G & 14).

Specific characteristics of this market, such as population taste, custom problems, and hidden economy are discussed in detail.

Finally, suggestion and recommendations, as well as key industry contacts, are given at the end of the report for the entry in this very particular market.

Country Background Information

Physical Attributes and Demographics

Topography

Venezuela is situated on the northern coast of South America, north of Brazil and between Colombia and Guyana. The southeast is dominated by the Guayana Highlands, and a further 30% of the country is taken up by the vast grassland plain of the central Llanos, which is drained by South America's third largest river, the Río Orinoco. The continent's largest inland lake, Lake Maracaibo, lies in the northeast, surrounded by marshy, fertile lowlands. South of the lake, rise the northern end of the Andes, known here as the Cordillera de Los Andes, which climb to 5007m (16,423ft) at Pico Bolívar. Boggy highland meadows in the Andes, known as *páramos*, are home to some of Venezuela's most amazing plant species. Equally diverse flora can be found on the *tepuis* (huge flat-topped mountains) in the southeast of the country, particularly Roraima.

The country's climate is predominantly tropical, with a warm temperate zone extending along the coast. Temperatures rarely vary more than a few degrees (Caracas 18-20°C/64-68°F; Maracaibo 27-29°C/81-84°F); consequently Venezuela's climatic zones are defined by rainfall rather than by differences in temperature. The northern coastal lowlands are relatively arid, but rainfall increases over the Llanos and the Guayana Highlands, with average yearly readings reaching 150cm (58in) in both regions. The dry season (called the *verano*) extends from December to April, and the wet season (*invierno*) covers the remainder of the year. The Amazon region has no distinct dry season, and annual rainfall exceeds 200cm (78in), distributed evenly

throughout the year. The dry season is more pleasant for traveling, particularly if you plan on hiking.¹

Population and Distribution

The population of the Republic of Venezuela is currently 21,051,000 and growing. There has been a 2.4 percent growth rate in the annual population. The main concentration of Venezuelans is in the urban areas, as over 80 percent of the people reside there. Caracas, the capital and largest city, is home to approximately 3,435,795. 67% of the population is *mestizo*, which is a mixture of Indian and Spanish heritage. Along the coast, 21% of the population is either mulattoes, or have European descent (mostly Italian or Spanish). 10 % are African descent and 2 % Indian. There are approximately 200,000 Amerindians, remnants of a number of diverse semi-nomadic hunter-gather societies.²

Spanish is the official language, but more than 30 Amerindian languages still survive, predominantly belonging to the Arawak, Cariban and Chibcha ethnolinguistic categories.³

History

At the time of the Spanish Conquest of Venezuela, the region was inhabited by some 500,000 indigenous peoples belonging to three principle ethnolinguistic groups - the Cariban, Arawak and Chibcha. Columbus was the first European to set foot on the soil of what is now Venezuela, and the country was given its name (meaning 'Little Venice') a year later by the

¹ www.lonelyplanet.com

² David, M. The Nations Around US-Venezuela. Brigham Young University, 1994.

³ www.lonelyplanet.com

explorer Alonso de Ojeda. The first Spanish settlement on the mainland was established at Cumaná in 1521.

The indigenous tribes put up a strong struggle against the colonial depredations of both the Spanish and the Germans, who left a swathe of death and destruction behind them as they pushed onwards in search of the chimerical El Dorado. In the end, though, their resistance was subdued when many tribal communities fell victim to European diseases such as smallpox, which wiped out two-thirds of the population in the Caracas valley alone.

However, the lack of lootable wealth in Venezuela soon led to colonial neglect, which in turn prompted dissatisfaction and resentment among the American-born Spanish elites. The Spanish rulers were eventually thrown out by the young Simón Bolívar, known locally as “El Libertador”. He seized Venezuela from Spain in 1821 with a decisive victory at Campo Carabobo, near Valencia, aided by British mercenaries and an army of horsemen from Los Llanos. Bolívar had already brought independence to Colombia, and went on, with his lieutenant Antonio José de Sucre, to liberate Ecuador, Peru and Bolivia. His dream of a united state of Gran Colombia, which would unify Colombia, Venezuela and Ecuador, did not survive his death in 1830, when Venezuela declared full independence under a new constitution.

The post-independence period was marked by a succession of military dictators, political coups and economic instability, until the discovery of huge oil reserves in the Maracaibo basin in the 1910s brought some degree of prosperity to the country. By the late 1920s Venezuela had become the world's largest oil exporter, but little of this new-found wealth found its way to the common people. With poverty rife and educational and health facilities in a deplorable state, a series of popular uprisings took place, culminating in the country's first democratic elections in 1947.

Despite recent political stability, Venezuela's political climate continues to be marred by corruption scandals and the threat of a military coup. The country's economy, which was hit hard by the 1988 drop in world oil prices, remains shaky. Then-president Caldera's unconstitutional crackdown on economic speculation and civic freedoms in 1994 incensed civil libertarians, but it took until early 1996 for popular opinion to swing against him. The government's tough measures were designed to bring Venezuela's rampant inflation and alarming currency slump under control, but the bloated public service has resisted attempts to put it on a lo-cal diet. It remains to be seen whether Venezuela's ingrained anachronistic economic culture will be nudged towards a brave new world: the black.

In December 1998, Venezuelans signaled their impatience with the government's impotence, electing a fierce populist, Hugo Chavez, to the presidency with the largest vote margin in 40 years. Just six years earlier, Chavez had attempted a coup against the government and had spent two years in jail for his troubles.⁴

Culture

Roman Catholicism is by far the dominant religion in Venezuela, and has been adopted by most indigenous people - only those living in isolated regions still practice their ancient tribal beliefs. The Protestant church has a significant presence, and recently has been gaining some ground, attracting adherents from the Catholic Church. An unusual and obscure pantheistic sect, known as the Cult of María Lionza, exists in the northwest and combines pre-Hispanic indigenous creeds, African voodoo and Christian religious practices.

⁴ www.lonelyplanet.com

Spanish is spoken by almost all Venezuelans, though some 25 indigenous tongues are spoken by remote tribes. English is spoken by some people in urban centers.

Visual arts and handicrafts are popular in Venezuela, but the country's most distinctive cultural outlet is probably its music, which is an eclectic blend of European, African and indigenous rhythms. Theater is growing in popularity, and there is an active literary scene, especially among the younger generation.

Venezuelan snacks and dishes (referred to as *comida criolla*) consist mainly of pancakes, chicken, pork, beef, soups and stews. Travelers should look out for restaurants, which serve *menú del día*, a very cheap set meal consisting of soup and a main course. Local specialties include *empanadas* (deep-fried cornmeal turnovers with fillings of ground meat, cheese, beans or baby shark) and *pabellón criollo* (Venezuela's national dish which consists of shredded beef, rice, black beans, cheese and fried plantain).⁵

Political Situation

Venezuela is a republic with an active multiparty democratic system and a longstanding commitment to democracy. Since 1958, Venezuelan politics has been mostly dominated by two large parties: the Democratic Action party (AD), associated with the Socialist International, and the Social Christian Party (COPEI) which is affiliated with the Christian Democratic movement. In recent years, other political parties have challenged the political dominance of AD and COPEI. These parties include: the Movement Towards Socialism (MAS), consisting of democratic-leftists allied with Caldera; the Radical Cause Party (Causa R), a working-class

⁵ www.lonelyplanet.com

oriented group; and the Convergence Party (Convergencia), a new party established in 1993 by Rafael Caldera. Venezuela held presidential and congressional elections in December of 1993 and President Caldera began his current five- year term in February 1994. President Caldera represents a coalition of political factions, incorporating most of the political spectrum from left to right, distinct from the two parties that dominated Venezuela's 40-year democratic history. Caldera emerged as the victor in the 1993 four-way race with little more than a 30 percent plurality.

As a result of the 1993 national elections, the congress has evolved from a bi-party system dominated by AD and COPEI to a more diverse five-party system. This has complicated the legislative process. Nonetheless, Caldera has had repeated success in securing from Congress the major pieces of economic legislation which his administration has proposed.

The election of mayors and governors took place for the first time in 1989. The direct election of state and local officials represents an important development in the ongoing process of political decentralization and transformation in Venezuela. Largely peaceful and orderly state and municipal elections to choose 22 state governors, over 320 mayors, state legislators and city councilmen were held in December 1995.⁶

The next national elections were in 1998. Hugo Chavez was elected president after being in jail during two years for attempting a military coup in 1992. He dissolved the congress and created a new constitution, and changed the name of the country from Venezuela to "*República Bolivariana de Venezuela*".

The next round of national elections are scheduled for July, 2000. These elections will be held under the new constitution.

⁶ Venezuela Country Commercial Guide. Political Environment. Page 12. U.S. Department of State, 1999.

Relations with the US

Venezuela and the United States have traditionally enjoyed strong trading ties. Despite Venezuela's current economic difficulties, U.S. exports continue to grow and will most likely pass the USD 6 billion mark in 1999. The U.S. is both Venezuela's largest trading partner and largest single investor. Venezuela and the United States have long shared a cordial bilateral relationship. As one of the hemisphere's longest-running democracies, Venezuela has been a key ally in our efforts to consolidate democracy in the region. President Chavez, elected in December 1998, has expressed his commitment to a number of goals that the U.S. shares—fighting drug trafficking, implementing judicial reform, promoting respect for human rights, and creating an atmosphere conducive to international investment that will allow the economy to grow. Chavez's administration has stressed the need for regional integration with other Latin American states. Various bilateral treaty negotiations with the United States have not progressed for the time being.⁷

Economy

The economy has recently been in a recession due to the Asian economic crisis and a drastic drop in worldwide petroleum prices. Petroleum is the economic lifeline of Venezuela, and the drop in prices was a huge blow to the country. Newly elected President Chavez announced a broad economic reform program, which details an overhaul of the Venezuelan constitution. As a result of this reform program, many investors are awaiting the outcome before spending their money in the economy. Currently, cutbacks in oil production and government

⁷ Venezuela Country Commercial Guide. Political Environment. Page 11. U.S. Department of State, 1999.

spending have kept the economy in a recession. Another contributing factor to the recession has been the overvalued Bolivar.⁸

Balance of Trade

After several years of a negative trade balance, Venezuela has recently enjoyed a positive balance. In 1996, the trade balance was 6.533 billion US\$. The 1997 totals show the trade balance to be a positive 3.245 billion US\$.⁹

Imports and Exports

Venezuela's most important natural resource is petroleum. The Petroleum industry is responsible for 27 % of total GDP, 67 % of exports earnings, and 54 % of central government revenues. The revenues from oil exportation have allowed Venezuela to develop into a fairly wealthy nation. A wide array of other products are also both imported and exported.¹⁰

Trading Partners

Venezuela imports and exports products from many countries. Table 1 below shows the Venezuela's trading activities for the past three years.

The three major import countries to Venezuela are the United States, Colombia and Brazil. The top five (5) import countries account for 65.03 % of Venezuela's total imports.

Venezuela's top three (3) major export countries are the United States, Colombia and Japan. The

⁸ Economic Survey of Latin American and the Caribbean – 1998-1999. ECLAC 1999.

⁹ Economic Survey of Latin American and the Caribbean – 1998-1999. ECLAC 1999.

¹⁰ Venezuela Country Commercial Guide. Appendices. Page 84. U.S. Department of State, 1999.

top five (5) export countries account for 26.59 % of Venezuela's total exports (see Table 2 below).

Table 1. Venezuela's trade in USD billions

Year	1997	1998	1999
Total Venezuelan Exports	23.4	17.3	17.7
Total Venezuelan Imports	12.9	13.9	12.0
Exports to the U.S.	13.4	9.3	8.9
Imports from U.S. Embassy	6.6	6.5	5.9

Source: Venezuela Country Commercial Guide. Appendices. Page 84. U.S. Department of State, 1999.

Table 2. Top Importing and Exporting Countries 2000- Venezuela

Country	Imports (million of U.S \$)	Country	Exports (million of U.S \$)
United states	701.56	United States	102.78
Colombia	98.45	Colombia	95.62
Brazil	65.99	Japan	17.85
Germany	N.A	Mexico	12.01
Japan	72.87	Holland	15.87
Other Countries	662.31	Other Countries	146.87
Total	1,443.56	Total	917.92

Source: CONAPRI

Imports and Export

The top three imported products, by value in dollars, to Venezuela are, automobiles (18.08 %), mechanic devices and appliances (16.67 %), and electrical devices and appliances (11.35 %). The top three (3) products account for almost 46 % of the total imports to Venezuela. The top three exported products, by value in US dollars, are Aluminum and manufacturers (14.9 %), Iron and steel casting (11.89 %) and automobiles (3.92 %). The top three exports account for

almost 30.8 % percent of Venezuela's exports. More detailed information is shown in Table 3 below.

Table 3. Top Imports and Exports Products 2000 – Venezuela

Description	Imports (Million of U.S \$)	Description	Exports (Million of U.S \$)
Automobiles	261.11	Aluminum and Manufacturers	137.56
Mechanic Devices and Appliances	240.78	Iron and Steel casting	109.19
Electric Devices and Appliances	163.98	Automobiles	36.04
Iron and Steel Manufacturers	83.02	Plastics	31.36
Inorganic Chemical Products	N.A	Inorganic Chemicals and Products	N.A
Mineral Fuels	N.A	Mineral Fuels	N.A
Cereal	N.A	Tobacco	N.A
Plastics	41.78		
Other Products	652.89	Other Products	573.73
Total	1,443.56	Total	917.92

Source: CONAPRI

Distribution and Sales Channels

There are no existing laws or regulations that limit distribution. All channels are possible: manufacturer's representative or commission agent; wholesale importing distributor; importing retailer; or direct sale to end-user. It is quite common to find Venezuelan companies undertaking several of these functions simultaneously. No specific business license is required for a local company or individual to be an importer. Many retailers administer their own imports, sometimes placing orders through commission agents or purchasing directly from foreign suppliers.¹¹

¹¹ International Trade Statistics Yearbook Vol. II 1994.

Use of Agents/Distributors

Although agents are not required by law, they are often contracted to promote sales. These agents are not used for documentation and importation services, they are more so commissioned agents. Customs agents usually handle importation and documentation services. Distributors are frequently used when a product requires strong after-sale support.¹²

Specific agent / distributors issues related to the fast food industry are discussed in the specific distribution and sales channel section.

Direct Marketing

Marketing, through TV commercials, newspaper inserts, house visits or street vendors, is common. Mail orders are not an option because of low reliability of the postal system. Placing orders by phone with delivery by messenger is becoming popular, and several such companies have been successful by placing their catalogs in newspapers as weekend-issue inserts. As the telephone system continues to improve, direct marketing by phone will become more common. Almost all businesses now use fax in their day-to-day business and many utilize email. E-Commerce is in the very early stages but could be a promising area for growth.¹³

Specific direct marketing issues related to the fast food industry are discussed in the specific distribution and sales channel section.

¹² International Trade Statistics Yearbook Vol. II 1994.

¹³ Venezuela Country Commercial Guide. Marketing U.S. products & services. Page 14. U.S. Department of State, 1999.

Branch Offices

A business is required to register with the Venezuelan "Commercial Registry" to be legally established. Opening and operating a coordinating or reporting office isn't considered foreign investment or a business activity as long as the office doesn't sell and is being financed from the home office. Other detailed activity would be considered part of the Commercial Code. Business enterprises can be registered four different ways. These ways include corporations, limited liability companies, partnerships, or as sole proprietorships.¹⁴

Free Trade Zone / Warehouses

Venezuela has two free trade zones. One, located on the Paraguana peninsula, is for industrial purposes only, such assembly, manufacture for export (or maquila) and is very small. It is being used by only a few enterprises. The other one is the duty-free area comprising the entire island of Margarita. The sale of duty-free merchandise from the island to the mainland is subject to quotas.

Duty-free bonded warehouses are available at ports, airports and in most major towns. Industrial establishments can also be declared in-bond if these are used for assembly, completion or improvement of products for re-export. Only clothing manufacturers are known to be using

¹⁴ Venezuela Country Commercial Guide. Marketing U.S. products & services. Page 15. U.S. Department of State, 1999.

this facility. They are also used as distribution centers, which are designed to speed the flow of goods and avoid unnecessary stored costs.¹⁵

Transportation

The country of Venezuela uses many different methods of shipping and receiving their products and materials. The following section will give statistical analysis, as well as other information pertaining to the different methods of transportation.

Ports-ocean

Venezuela ranks in the upper middle of the world for the amount of metric tons shipped totaling 7,100,000,000 metric tons-km. The main importing port is located in La Guaira, which is the port for Caracas (see country map). All in all, there are nine major ports, 34 petroleum and mineral ports, and five fishing ports in Venezuela. The chief port for the giant petroleum industry is found in Maracaibo. In recent years, there have been several new ports developed for the meeting Venezuela's increasing need for port capabilities. In addition to the new ports, several have been improved and/or expanded since 1979. The revisions to the Venezuela ports have greatly raised the overall capacity.¹⁶

Rail

Venezuela isn't too greatly involved in Railway freight, ranking in the bottom in metric tons shipped, which totaled 13,700,000 metric tons-km. Currently, the government is planning on constructing a railway network. The project would be completed by the year 2000, and would

¹⁵ Venezuela Country Commercial Guide. Trade regulations & standards. Page 50. U.S. Department of State, 1999.

¹⁶ The Illustrated Book of World Rankings, 1997.

run 1,400km throughout the country. The estimated cost for the railway is \$2.5 billion US dollars.¹⁷

Air

There are over 280 authorized airports and landing strips in Venezuela, but only about 40 deal with commercial service. The *New Book of World Rankings* places Venezuela in the upper middle for metric tons-km of air cargo shipped, totaling over 215,200,200 million tons-km. The airports are government ran, with the exception of two independent mainland airports, and one located on Margarita Island, which is managed under a concession. Along with commercial aviation, Venezuela also is home to 61 civil airports, seven of which are international. The main civilian airports are actually two adjacent airports located 13 km outside of Caracas.¹⁸

Road

According to a 1995 estimate, there are 82,700 km of roads in Venezuela, of which 32,500 km were asphalted. There are three main highways in the country. The first runs 960km from Caracas to Ciudad Bolivar. The Pan-American Highway runs 1,290km from Caracas to the Colombian frontier. The third major highway runs North South from Coro to la Ceiba. There is a new "marginal highway" being built along the Western Amazon Basin in Venezuela, Colombia, Ecuador, Peru, Bolivia, and Paraguay. The Venezuelan section currently runs for 440km and is fully paved.¹⁹

¹⁷ The Illustrated Book of World Rankings, 1997.

¹⁸ The Illustrated Book of World Rankings, 1997.

¹⁹ David, M. The Nations Around US-Venezuela. Brigham Young University, 1994.

Marketing U.S. Products and Services

Market Opportunities--Top 10 U.S Products Exported to Venezuela

The top three (3) exported products from the United States by value in US dollars to Venezuela are telecommunication services (59 %), telecommunication equipment (21.37 %), and oil and gas machinery and services (2.79 %). The top ten (10) exported products account for 38.17 % of the total exports to Venezuela from the United States. More detailed information is shown in Table 4 below.

Table 4. Top 10 U.S Exports to Venezuela

Rank	Name of Sector	1999 (USD Millions)
1	Telecommunication Services	4,875
2	Telecommunication Equipment	1,764
3	Oil and Gas Machinery and Services	231
4	Electrical Power Systems	162
5	Automobile Parts and Service Equipment	300
6	Medical Equipment	11
7	Computer and Peripherals	390
8	Computer Software and Services	330
9	Pumps, Valves, and Compressors	143
10	Security and safety Equipment	45
	Total Top 10 Products Imported	8,251

Source: Venezuela Country Commercial Guide. Leading sectors for U.S. exports and investment. Page 24. U.S. Department of State, 1999.

Market Opportunities--Top 10 products imported from Venezuela to the U.S

The top three (3) imported products by value in U.S dollars to the United States from Venezuela are Crude Petroleum (86.11 %), Aluminum (2.93 %), and Organic Chemicals (1.82%). The top 10 U.S Imports from Venezuela account for 98.04 % of the total. More detailed information is shown in Table 5 below.

Table 5. Top 10 U.S Imports from Venezuela 1996 - FAS Value

*SITC	Nomenclature	FAS Value (\$1,000,000)	Percent
	All Commodities	8,378	100
333	Crude Petroleum	7,214	86.11
684	Aluminum	246	2.93
516	Organic Chemicals	153	1.82
671	Pig Iron	151	1.80
784	Parts & Accessories of Motor Vehicles	126	1.50
342	Liquified Propane and Butane	103	1.22
281	Iron Ore and Concentrates	78	0.93
335	Residual Petroleum Products	78	0.93
278	Crude Minerals	65	0.77
	Total Top 10 Products Imported	8214	98.04

*SITC- Standard Industrial Trade Classification. Source: US Department of Commerce

Advertising

While there are some specialized publications, the daily newspapers are the most common forms of advertising. This holds true with regards to machinery or industrial equipment as well. TV and radio commercials are used heavily to promote durable and non-durable consumer goods. Billboards are common as well as distribution through leaflets, newspaper inserts, and in-store promotions. There are numerous advertising agencies, some being subsidiaries of well-known U.S. companies.²⁰

Pricing Policies

The market and the competitive forces surrounding the market basically determine pricing in Venezuela. There are a few price controls, mainly on pharmaceuticals and some basic foods. Mark-ups of over a 100% are not uncommon if the market can bear it. Violators of price fixing will be issued a heavy fine, as price fixing is prohibited by Venezuelan law. Despite the low labor costs, the real cost of doing business in Venezuela is fairly high; due to the fringe benefits many employees receive.²¹

The fast food prices basically are calculated on the basis of: cost of the raw material, plus local transportation, plus warehousing costs, plus promotion, advertising or marketing cost, plus sales commissions, plus mark-up for profit and possible additional taxes.

²⁰ Venezuela Country Commercial Guide. Marketing U.S. products & services. Page 17. U.S. Department of State, 1999.

²¹ Venezuela Country Commercial Guide. Marketing U.S. products and services. Page 19. U.S. Department of State, 1999.

Consumer Attitudes

Consumer attitudes towards products are very similar to those in the United States. Venezuelans do not look down upon American products. This is especially evident considering that the U.S is both Venezuela's largest trading partner, and largest single investor.

Business customs

It is customary for to give a nice gift to valued business customers during the Christmas season. These gifts are often quite expensive. Americans make several mistakes when conducting business in Venezuela. The order forms Americans offer the Venezuelan businesses often contain English, and this is unacceptable. Another mistake commonly made by Americans is pointing with an index finger during conversation. It is much more polite to motion with the entire hand.²² Weekends and holidays are generally off-limits for business meetings with Venezuelans; these times are reserved for family.

Hours

The workweek is generally 8:00 a.m. through 6:00 p.m. Monday through Friday. There is usually a one or two hours break each day for lunch. Government offices maintain similar hours, although it varies by region.²³

Holidays

During each official public holiday, statues of Simon Bolivar, who is the father of Venezuela, are decorated with colorful wreaths. Carnival, which occurs two days before Ash

²² Venezuela Country Commercial Guide. Business Travel. Page 81. U.S. Department of State, 1999.

Wednesday, is an especially festive time. One will often find water fights, parades, dancing in the streets, amusements, and other activities. Other official public holidays include New Year's Day, Ash Wednesday, Easter, Declaration of Independence Day, Battle of Carabobo, Independence Day, Simon Bolivar's Birthday (24 July), Public Officials' Day, Columbus Day, Christmas Eve and Christmas, and New Year's Eve.²⁴

Gestures

An *abrazo* is a full embrace while patting each other on the back of the neck. Men greet close friends with an *abrazo*, and women add a kiss on the cheek to the greeting. This greeting is usually given only between two people who are close friends or relatives. For the common stranger, a handshake is very acceptable. When in conversation, Venezuelans stand much closer than in the United States. Uncomfortable as that may be for a typical American, it is improper to back away. Common greetings include *Buenos Dias* (Good Morning), *Buenas tardes* (Good afternoon), and *Buenos noches* (Good evening). A more casual way to greet some one is with a simple "*Hola*" (Hello). Often after a greeting, people will inquire about one another's health.²⁵

Safe Travel Considerations

Venezuela was a very cheap country to travel in during the period of the fixed exchange rates, provided you came with U.S dollars and changed them on the black market. Since the bolívar was freed, there has been a massive increase in prices of goods and services. Still,

²³ David, M. The Nations Around US-Venezuela. Brigham Young University, 1994.

²⁴ David, M. The Nations Around US-Venezuela. Brigham Young University, 1994.

²⁵ David, M. The Nations Around US-Venezuela. Brigham Young University, 1994.

travelers on a budget can easily get by on U.S.\$20 a day or so; those looking for more comfort should expect to spend US\$40 or more.

U.S dollars and American Express travelers' checks are by far the most popular. Visa and MasterCard have the best coverage for both cash advances and for making payments in top-end hotels, restaurants and shops. You can change money at a bank or at a *casa de cambio* (an authorized money-exchange office). Banks change cash and travelers' checks, but *casas de cambio* deal only in cash.

U.S nationals, Canadians, Australians, New Zealanders, British and most Western and Scandinavian Europeans do not require a visa if they fly directly to Venezuela. For stays longer than 60 days a visa and valid passport are required for U.S. travelers. A tourist card issued by an airline will suffice for stays less than 60 days. All foreigners entering Venezuela by land require a valid visa; get one before you leave for South America.

There have been reports of violence in remote areas along the Colombian border in Zulia, Tachira, Apure and Amazonas states. If venturing into these regions, contact your embassy to assess the security risk.

While no vaccinations are required, Cholera, dengue fever, hepatitis, malaria, yellow fever suppressants are highly recommended, especially in certain areas.²⁶

Negotiations

Negotiations often occur at the many trade shows that Venezuela has every year. These trade shows have proven to be a very effective method of promoting a new product, or finding an agent or distributor, and often lead to off the floor sales. Conventional business meetings also

²⁶ David, M. The Nations Around US-Venezuela. Brigham Young University, 1994.

take place to negotiate a contract or an order. These meetings are usually slightly more laid back than Americans are accustomed to.²⁷

Customs

Customs calculates duties on the landed (CIF) cost of the product and on the gross weight of the import, thus including the weight or value of the packaging. Venezuela has recently established procedures for imposing countervailing duties to avoid dumping and counteract subsidies. Such duties have been levied on products, such as blue jeans coming from Asia and some plastics. Typically customs authorities accept the value of the shipment as indicated on the documents, but recent regulations allow them to reference a base price for purposes of determining minimum base price for purposes of customs value. Government officials indicated that this base price system is GATT-compliant. Under invoicing in any event can result in heavy fines to the importer as well as forfeiture of the goods in question. Complaints by importers of inconsistency in customs treatment in various ports of entry have led to an effort by SENIAT, an agency of the Ministry of Finance, to build a common data base of information and otherwise coordinate and ensure uniform valuation principles by customs offices in the country.²⁸

Import/Export Documentation

Venezuelan Customs requires that all documents be in Spanish. The invoice must be typewritten; a photocopy will not be accepted. The manifest of importation and declaration of value must be in quadruplicate. The following documents may be required: commercial invoice;

²⁷ Venezuela Country Commercial Guide. Marketing U.S. products & services. Page 17. U.S. Department of State, 1999.

²⁸ Venezuela Country Commercial Guide. Trade regulations & standards. Page 44. U.S. Department of State, 1999.

bill of lading; packing list; certificate of origin (if required); special certificates or permits when required (such as phytosanitary or quality standards certificates or Ministry of Interior permit for firearms). Exporters should consult with the Venezuelan importer regarding what documentation is required in addition to the invoice.

Exporters should quote CIF prices for Venezuela (not FOB) since import duties are calculated on the CIF price. Insurance and freight must be listed separately on the invoice.

The invoice must be in duplicate and list both the value per unit and the total value of the shipment. Shipping and insurance costs are to be listed separately. The description for the merchandise must include the appropriate tariff number, which the importer can supply.

To simplify the import process for a large amount of cargo for one project, there should be a single declaration for all items, and each item then listed separately with its respective tariff number.

For new products, particularly those whose tariff number cannot be readily identified, it is important to obtain a specific tariff number, which the importer can obtain from customs.

All shipments must be made on a direct consignment basis. Customs regulations stipulate that the consignee is the owner of the shipment and is responsible for all customs payments. Thus, a consignee may make the required payments and remove the merchandise from customs. It is important to have a reliable and known consignee as the ownership status allows the consignee to have complete control over the imported product. Similarly, some U.S. companies have had difficulties with sight draft transactions. When Venezuelan companies either delay or refuse to claim merchandise arriving in Venezuelan ports Customs will impound goods not claimed, and, if steep fines and storage fees are not promptly paid, sell the goods at auction. In

some instances, the original consignees have successfully bid on the same goods at auction and obtained them for well less than the CIF value. For this reason, exporters are advised to investigate Venezuelan companies thoroughly and carefully evaluate the advantages and risks of sight drafts versus irrevocable letters of credit.

Since Venezuelan customs procedures are cumbersome and involve many steps, most importers use the services of a customs agent. The Commercial Section of the U.S. Embassy can provide names of reputable agents.

Venezuelan customs brokers typically charge one percent of the CIF value, or less on regular orders. There are additional charges for document preparation and incidentals. The importer normally pays these expenses.²⁹

Labeling/marketing requirements

Spanish is the official language of Venezuela, and the only official measuring system is metric. Labels must list all ingredients, the contents of the package in the metric system or in units, and the registration number of the Ministry of Health or the Ministry of Agriculture in the case of animal feeds or veterinary medicines. Stickers are allowed in the case of imported products. These stickers must also identify the importer. Operating instructions or owners manuals must be in Spanish.³⁰

²⁹ Venezuela Country Commercial Guide. Trade regulations & standards. Page 46. U.S. Department of State, 1999

³⁰ Venezuela Country Commercial Guide. Trade regulations & standards. Page 48. U.S. Department of State, 1999

Specific Product

The fast food industry has been booming in the United States economy for the past several years. The fast food industry in itself is a niche, which contains competitors who in themselves contain their own niche; the fast food industry as a whole provides a general niche which includes: immediate service, acceptable food, acceptable price, location, and stability in a sometimes instable economy. The current customers have accepted previous fluctuations in prices, which is a good indicator if the minimum wage increases in the next few years. As people continue to eat out we can expect the outlook for the fast food industry to look positive.

Domestic Consumption in Venezuela

The main concentration of Venezuela's population is in the urban areas, as over 80 percent of the people reside in cities. The major cities of Venezuela are Caracas (the capital), with a population 3,345,822, Maracaibo (pop. 2,249,670), Valencia (pop. 1,903,621) and Barquisimeto (pop. 1,625,450), see country map. Around 67 percent of the population is meztiso, which is a mixture of Indian, African and Spanish heritage.³¹

Since Venezuela is mostly an oil production country and it sells almost all the oil to the United States, Venezuela strongly feels the influence of U.S. As a consequence, Venezuelans have adopted the habit to eat in fast food restaurants, where most them are American Franchises. Immigrants from all around the world have brought their food culture and have also established their typical food restaurants. These kinds of restaurants include the Chinese, Japanese, Spanish

³¹ David, M. The Nations Around US-Venezuela. Brigham Young University, 1994

and Portuguese. The concept of fast food is generally considered a culture from the Americans. These fast food chains have become more popular through these coming years because of the business world that demands more time to work and less time to go home for lunch or dinner. The burgers have become very famous but can only target middle and high-income families because of the instability of the price of a U.S dollar, as consequence of the high rate of the inflation. The domestic market in this area is growing rapidly and the demand for imported franchises to be on the rise. The best prospects are for those restaurants that are very well known internationally and have strong strategies and marketing mix to gain and increase market share, as Mc Donald's and Wendy's.

Venezuelan franchisees have created more than 10,000 jobs for qualified professionals, and the jobs for university students, high school students, and college professionals have increased to 30,000³². This franchising system represents around 29.41 million U.S dollars each year, where the franchising leader is Mc Donald's. This fast food segment of the franchising system is the fifth sector of growing within the Venezuelan economy.³³

A research study by CVI (Compañía Venezolana de Investigación de Mercado) in 1996 showed that 50.4 % of the consumers for fast food were men and 51.8 % of the people that visited the fast food restaurants were women. The average age of the 73 % of the fast food consumers were between 15 and 39 years old. Twenty one percent (21 %) are consumers between 30 and 39 years old.³⁴

³² Franquicias generaron 40 mil empleos. El Universal, 1999

³³ Maracara, L. Negocios de comida rapida toman al pais, 1997

Currency –Exchange rate.

The Bolivar has been increasingly weakening over the last five years, with an especially large change between 1995 and 1996. The Ministry of Finance returned control of the currency to the Central Bank of Venezuela (BCV) in 1996, effectively ending exchange controls. The BCV has used the exchange rate as an anchor against inflation since 1996, when prices rose by 103 percent. The Bolivar is allowed to fluctuate plus or minus 7.5 percent around a central parity. The parity depreciates by a pre-determined rate of 1.28 percent each month to compensate for the large inflation differential between Venezuela and its main trading partner, the United States. This rate was most recently established by the BCV in January 1998 and it has not been readjusted. However, the gap between monthly inflation and this monthly depreciation has led to an increasing overvaluation of the currency, which was estimated to be 44 percent at the end of June 1999. This has affected the competitiveness of non-traditional exports.³⁵

The following Table shows the exchange rate for the past six years.

Table 6. Exchange Rate trends for the Past Six Years (1994-1999)

Bolivares						
	1994	1995	1996	1997	1998	1999
1 U.S \$ =	148.503	176.843	417.333	488.635	547.556	620.528

Source: CIA World Factbook

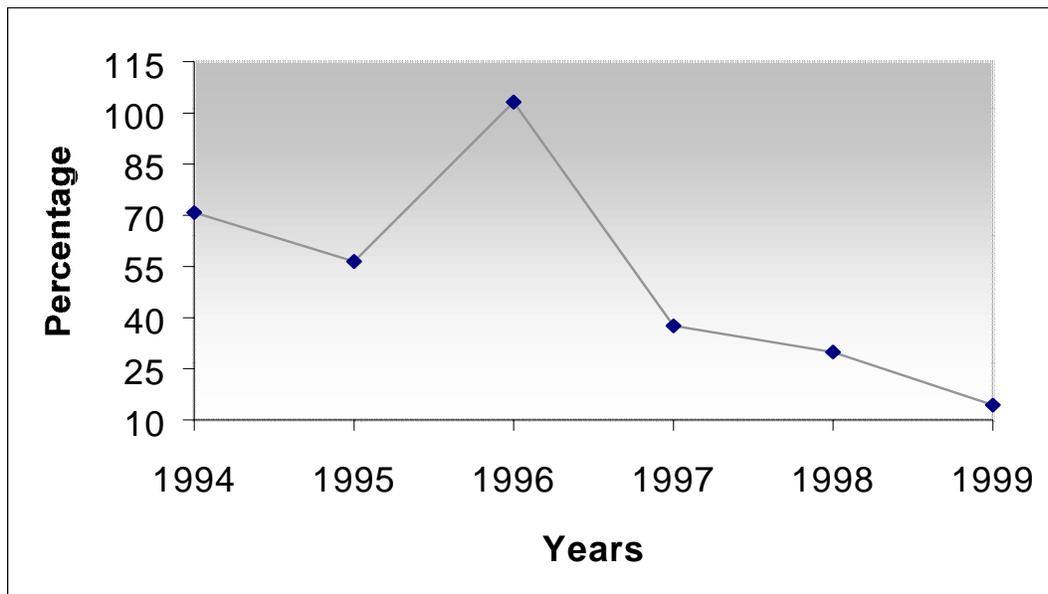
³⁴ Maracara, L. Negocios de comida rapida toman al pais, 1997

³⁵ CIA World Factbook -Venezuela.

Inflation rates and trends

With the exception of a giant rise in inflation during 1996, Venezuela is seeing a trend of the inflation rate decreasing. The following figure illustrates the inflation rates for Venezuela the previous five years.

Figure 1. Inflation Rates



Source: Country Commercial Guide

Third Country Competition

There is not a significant amount of fast food restaurants and franchised restaurants operating in Venezuela from countries other than the U.S. The Chinese's immigrants have been opening Chinese restaurants with competitive prices but not using the fast food concept. In late 1999, the French franchise "*Crêpe de France*" started operating in Caracas, Venezuela. This restaurant is a third country direct competitor in the fast food niche, but it is only in the introduction stage of the life cycle product.

Market trends in Venezuela

Current sales

In this report, current sales estimates are based on economic indicators expressed through the total country's GNP and consumer expenditure on food, within Venezuela. Unfortunately information for the "Fast Food Industry" has been unattainable. Table 7 shows trends of Total Consumer Expenditure from 1977 to 1996. It can be appreciated that the Total Consumer Expenditure has grown steadily in Venezuela over the years, and has almost doubled in this period.

Table 7. Total Consumer Expenditure 1977-1996 (Millions of USD). Venezuela

Total Consumer Expenditure	1977	1980	1985	1990	1992	1993	1994	1995	1996
		18,628	21,628	24,328	27,628	29,502	31,378	33,252	34,189

Source: International Marketing Data and Statistics

The services, private consumption and agriculture, as percentages of the total GNP, are relevant economic indicators that influence the fast food industry's data. These percentages are shown in table 8.

Table 8. Economic Indicators (percentages of the total GNP)

TOTAL GNP = 81.3 Billion USD				
Year	1977	1987	1997	1998
Services	50.5 %	53.4 %	55.2 %	61.0 %
Private Consumption	51.5 %	64.7 %	67.2 %	72.9 %
Agriculture	4.9 %	6.1 %	4.5 %	5.0 %

Source : <http://www.worldbank.org>

It is important to note that Venezuela has a major increase in both Services and Private consumption since 1977, which allow the Fast Food industry to grow and thrive in Venezuela.

Table 9 shows the information related to the consumer expenditure on food from year 1977 to year 1996. The consumption on food has been growing very fast in the past years, so this is a good indicator for the fast food industry that would like to operate in Venezuela.

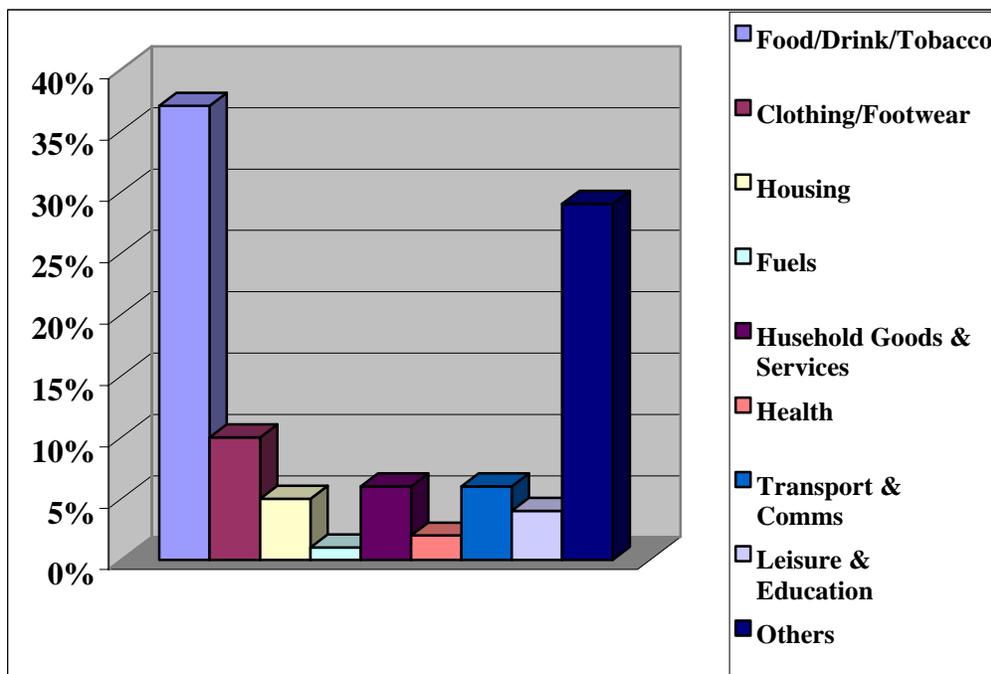
Table 9. Consumer Expenditure on Food, Venezuela (1977-1996).

Year	1977	1980	1985	1990	1992	1993	1994	1995	1996
Million USD	52.25	86.77	154.49	720.60	1,403.02	1,912.63	2,838.20	4,344.70	6,467.35

Source: Euromonitor from OECD/national statistical offices

It is relevant to show that for 1996 the amount of money Venezuela’s people expended in food, drink, and tobacco was approximately 37 percent of the total consumer expenditure. This can be appreciated in the following figure (Figure2).

Figure 2. Consumer Expenditure by object. 1996



Current size of the market

The closest indicator we could use for the market size of the fast food industry in Venezuela is the Franchising Industry. According to The Franchising Association, the United States held the majority among foreign franchises in Venezuela. The Association also reports that 24.7 % of all franchises are fast food. This booming of franchising is said to be due to the proliferation of malls throughout the country.

Table 10. Franchising Marketing Data (In Millions USD) for Venezuela (1997-1999).

TOPIC	YEAR		
	1997	1998	1999
Total Market Size	10	18	24
Total Production (Not Exported)	3	8	10
Total Exports	0	2	3
Total Imports	7	8	17
Total Imports From US	6	6	12

Source: <http://www.statusa.gov> and The Franchising Association

The Venezuelan Franchising Association (AVF) presented a study that showed a great advance in the franchising sector due to the incremental of the franchisors that started the operations in the country. This economic activity promotes the development of other sectors. The study also pointed that the franchising system is a way of expanding business with success and it is growing worldwide, becoming from American and European societies. In Venezuela this new concept has been successful because of the American companies penetrating the market.

The AVF estimates that from each new franchise open, there are between 5 and 10 job positions available. The candidates for these jobs require each day a more qualified profile with work experience and academic accomplishments.

Regarding with the international activities of the AVF, seminars have been developed to put together entrepreneurs from all around the world. AVF signed a contract with the “Asociación Española de Franquicias”, to promote experience exchanges and enlarge the commercial relations between both countries, Venezuela and Spain. This fact will help the franchise systems, the potential investors and the enterprises within the segment.³⁶

Projected size of the market

Table 11 shows the population in Venezuela since 1960. The current population of Venezuela is 23.5 million³⁷. The population is projected to grow at rate of 1.71 percent annually. The projected population in the year 2010 is 27.133 million and in the year 2050 is 37.1 million.

Table 11. Venezuelan Population From 1960 to 2050

Years					
Population in Thousands	1960	1980	1996	2010	2050
	7,556	12,674	20,704	27,133	37,106

Source: <http://www.census.gov>

The current age distribution in ten-year intervals by sex is shown in table 12 below. Approximately 44 percent of the population (10,321 million) is between 20 and 49 years old.³⁸

³⁶ Franquicias generaron 40 mil empleos. El Universal, 1999

³⁷ Venezuela Country Commercial Guide. U.S. Department of State, 1999

This is significant to a company trying to establish a fast food company in Venezuela, because it is the time when consumer are earning more and have greater disposable income. This group has the potential to be a significant target market for Fast food restaurants.

Table 12. Venezuela's Current Age Distribution (10-year intervals)

	Age Distribution in thousands (year 2000)							
	>69	69-60	59-50	49-40	39-30	29-20	19-10	<10
Male	313	437	757	1288	1707	2177	2505	2690
Female	389	470	779	1326	1724	2099	2358	2522

Source: <http://www.census.gov>

Issues that may have an impact on the company if they enter this market

There are certain issues very particular to Venezuela that might have an impact on the company trying to enter this market. Issues such as the banking system, the corruption, the long processing times at the ports, the language, business customs are to be seriously considered in order to assure success and to avoid unnecessary risks.

Banking System

“The banking sector there has been in chaos since January 1994, when the government closed Banco Latino, the country’s second-largest bank. Although they have spent about 7 billion USD on bailouts so far, or around 13% of GDP, government officials have done little to contain the disease. The problems can be traced back to 1989, when the government freed

³⁸ Statistical Abstract of the World, Detroit, 1994.

interest rates and lifted other restrictions on banking, but did not provide the beefed-up supervision that a deregulated system requires.”³⁹

The banking industry does not have a bright future because the government has been lax to fix current problems in the banking laws. This is partially due to the lobbying efforts from the largest banks. The government is not sure how they are going to stop the current economic problems. The printing of additional money is probably their only choice, which will lead to higher inflation. The only way out could be to cut public spending but that is strongly opposed by the general public.

The banking laws are very lax and there needs to be economic reform before obtaining loans becomes a feasible option. Economic reform, increased regulation in the banking industry or a reduction of government spending will help bring about a slow recovery of the economy. Without these the investment opportunities could be risky.

The Corruption

Transparency International in Berlin reported that Venezuela scored a 2.3 on a scale of 0 to 10 in its 1998 Corruption Perception Index, with 0 representing the most corruption and 10 the least. The index is based on international surveys of business people, political analysts and the general public. Venezuela has a regulatory system to prevent and prosecute corruption; accepting a bribe is a criminal act. Penalties include fines and/or prison sentences. However, the country lacks an effective judicial system to provide judicial security for either foreign or national residents.

³⁹ www.worldbank.org/finance

Foreign direct investment is hindered by corruption, although this varies on a sectorial basis. Government tenders are the most vulnerable to corruption because the tender process frequently lacks transparency. The Comptroller, an arm of the Ministry of Justice, has primary investigative responsibilities for corruption cases involving public officials and entities. The Technical Judicial Police (PTJ) organization also has the power to open cases. The Chavez' government recognizes corruption as a systemic problem and has promised to undertake significant constitutional reforms, particularly of the judicial branch, to bring it under control. Many cases of fraud and mismanagement are pending against fugitive private bankers for actions that helped precipitate or aggravate the 1994-95 financial crisis.

Long Processing Times

Long processing times are the norm at Venezuelan ports; payoffs or connections are often the only ways to speed things along. Because evasion of tariff and tax payments is said to be the norm in up to 50 percent of all import transaction, a crackdown was announced in March of 1999, which will lead to the suspension of the licenses of 500 customs brokers.⁴⁰ Venezuelan customs procedures are cumbersome and involve many steps; this is why most importers use the services of a customs agent. The Commercial Section of the U.S. Embassy can provide names of reputable agents.

Complaints by importers of inconsistency in customs treatment in various ports of entry have led to an effort by the National Tax Authority (SENIAT) to build a common

⁴⁰ David, Biederman, Traffic World, 1999.

data base of information and otherwise coordinate and ensure uniform valuation principles by customs offices throughout the country.

The Language

Since Spanish is the official language of Venezuela customs require that all documents be in this language. U.S. companies often make the mistake of providing sales literature in English when selling to their agents or distributors. While many businessmen speak English, much of their staff and customers will not. Consequently failure to prepare materials in Spanish eliminates a key selling tool.

U.S. companies interested in selling to the Venezuelan Government should note that, according to Venezuelan law, all correspondence must be in Spanish. Companies that write to a government agency in English will probably not receive a reply. Government officials are not permitted to conduct official business in any other language than Spanish.

Business Tendencies

Venezuelan importers prefer to buy directly from the manufacturer, instead of going through intermediaries. U.S. exporters that are not manufacturers should try to associate themselves closely with the U.S. manufacturer, whenever possible⁴¹. Subject to a 2 percent customs handling charge and a 12.5 percent tax. A luxury tax of up to 20 percent also applies to certain goods.

⁴¹ Europe World Yearbook Vol. 1. 1997.

Current Prices of Goods

The highest price for fast food in Venezuela is charged by Chipi's, a national burger franchise, \$ 4.34 for a ½ pound hamburger. The lowest price for a comparable product is charged by Wendy's and Mc Donald's, for their hamburgers, \$0.81. The current prices for the different fast food items in Venezuela by competitors are shown in table 13 below.

The prices are in Venezuelan currency at an exchange rate of September 10th, 2000.

1 US \$ = 690 Bolívares

Tables 13.A-C. Current Prices of Goods for American Franchises

Table 13.A. Mc Donald's

Products	Venezuelan Prices (\$)	US Prices (\$)
Big Mac	2.87	1.15
Double Big Mac	3.82	NA
Mc Chicken Sandwich	3.01	1.29
Quarter Pound with Cheese	3.01	1.00
Mc DLT	3.01	NA
Hamburger	0.81	0.79
Hamburger with Cheese	0.88	0.89
Chicken Mc Nuggets (6 pieces)	2.79	1.39
Chicken Mc Nuggets (9 pieces)	3.31	2.15
Large French Fries	1.47	1.50
Medium French Fries	0.88	1.39
Salad	1.99	2.19
Large Soda	0.96	1.15
Medium Soda	0.81	1.00
Small Soda	0.66	0.89
Sunday with Topping	1.10	1.09
Cone Ice Cream	0.66	0.59
Apple Pie	1.03	0.79

Table 13.B. Wendy's

Products	Venezuelan Prices (\$)	US Prices (\$)
Hamburger	0.81	0.79
Hamburger with Cheese	0.88	0.99
Hamburger with Cheese and Bacon	2.06	1.69
Chicken Sandwich	3.75	2.13
Big Classic	4.12	2.59
Double Big Classic	5.15	2.89
Big Classic with Beacon	4.85	3.15
Chicken Garden Salad	5.07	2.50
Garden Salads	2.28	2.19
Large French Fries	1.62	1.45
Medium French Fries	0.96	1.35
Large Frosty	1.69	1.15
Medium Frosty	1.40	0.99
Small Frosty	1.10	0.79
Cookies	1.03	0.69
Large Soda	0.96	0.99
Medium Soda	0.81	0.89
Small Soda	0.66	0.79

Table 13.C. Burger King

Products	Venezuelan Prices (\$)	US Prices (\$)
Whopper	2.65	2.59
Whopper with Cheese	2.94	2.79
Whopper Jr.	2.50	2.29
Whopper Jr. with Cheese	2.72	2.39
Chicken Sandwich	3.01	2.69
Chicken Strings	3.09	2.15
Large French Fries	1.47	1.59
Medium French Fries	1.25	1.39
Onion Rings	1.62	1.49
Large Soda	0.92	1.25
Medium Soda	0.84	1.15
Small Soda	0.72	1.09
Apple Pie	0.96	0.99

Tables 13.D-F Current Prices of Goods for Venezuelan Franchises

Table 13. D. Chipi's

Products	Venezuelan Prices (\$)
Hamburger (1/2 lb)	4.34
Extras	0.66
Chicken Sandwich	4.34
French Fries	1.46
French Fries with Cheese	1.84
Large Soda	0.96
Medium Soda	0.81
Different Cakes	1.99

Table 13. E. Rockie's Burger

Products	Venezuelan Prices (\$)
Hamburger	2.93
Hamburger (1/4 lb)	3.01
Cheese Burger	3.16
Bacon Burger	3.60
Mushroom and Swiss Cheese Burger	4.71
French Fries	1.28
French Fries with Cheese	1.69
Large Soda	0.96
Medium Soda	0.74
Chocolate Cake	1.76
Cheese Cake	1.76

Table 13. F. Pollos Arturo

Products	Venezuelan Prices (\$)
Jumbo Pack	5.15
Two pices of Chicken	2.21
Small Cole slaw Salad	1.18
Large Cole Slaw Salad	1.47
Large French Fries	1.47
Small French Fries	1.25
Large Soda	1.10
Medium Soda	0.81
Cheese Cake	1.76
Arequipe Cheese cake	2.06

Table 13.G Current Prices of Goods for French Franchises

Crepe De France

Products	Venezuelan Prices (\$)
Turkey and Cheese Crepe	2.94
Ham and Cheese Crepe	2.79
Mushroom and Cheese crepe	4.12
Ham and Cream Cheese Crepe	3.68
Nutella Crepe	3.68
Chocolate Crepe	2.65
Arequipe Crepe	2.72
Butter and Sugar Crepe	2.21
Strawberries and Cream Crepe	4.34
Regular Soda (can)	0.88
Coffee	0.63

Sources: Venezuelan prices were taken from restaurants in Caracas-Venezuela, May 2000 and US prices were taken from Restaurants in Menomonie-Wisconsin, September 2000.

Table 14 shows the proposed prices of goods for the national crepe fast food restaurant (Bonne Crepe) that would be established in Venezuela. These prices were taken from the business plan developed in July 2000 for that industry.

Table 14. Proposed prices of goods for Bonne Crepe

Products	Venezuelan Prices (\$)
Turkey and Cheese Crepe	2.61
Ham and Cheese Crepe	2.61
Mushroom and Cheese crepe	3.62
Ham and Cream Cheese Crepe	2.61
Nutella Crepe	2.61
Chocolate Crepe	2.17
Arequipe Crepe	2.17
Butter and Sugar Crepe	1.74
Week Specialty	3.62
Regular Soda (bottle)	0.58
Coffee	0.58

Source: Bonne Crepe Business Plan

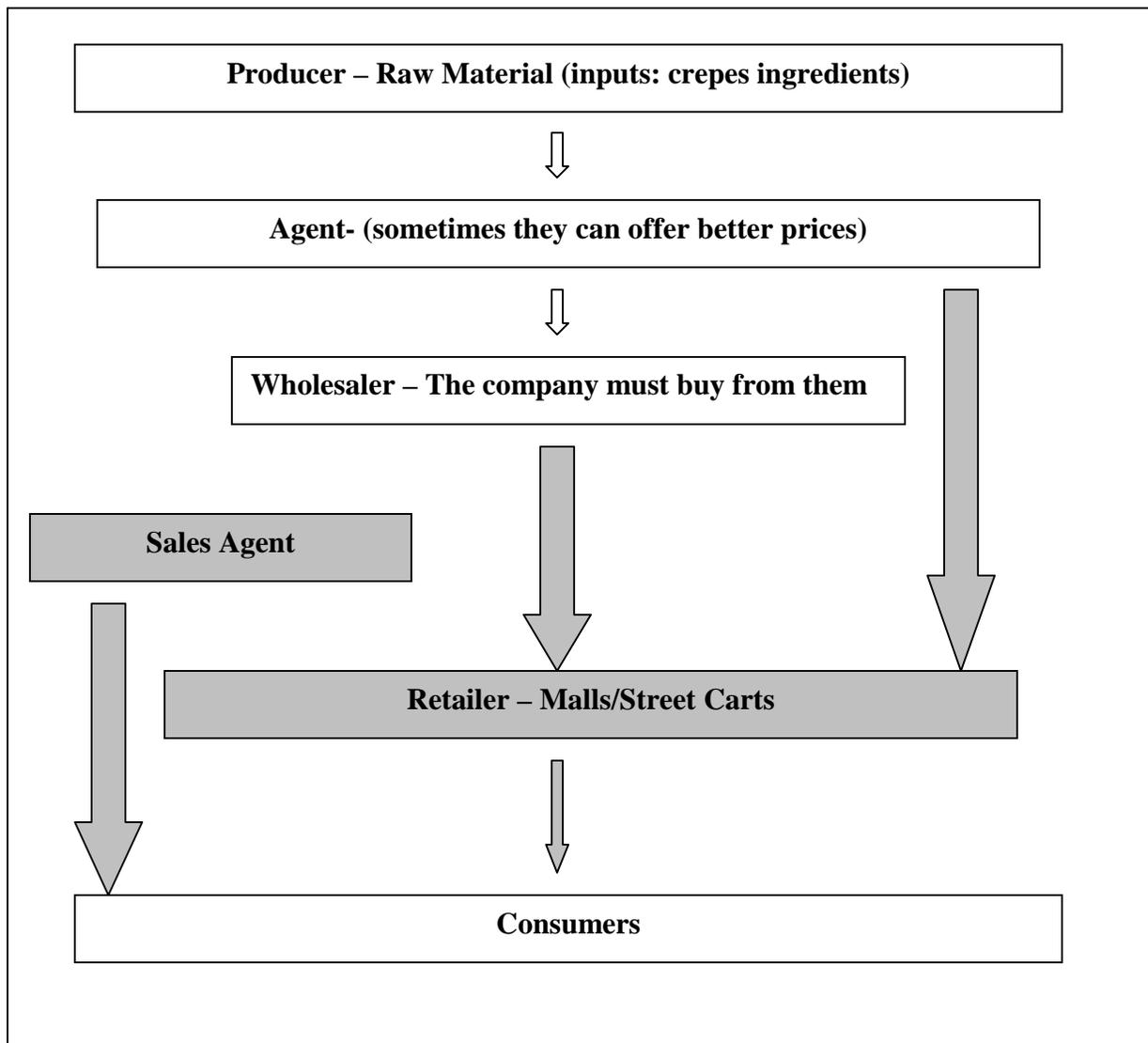
Mc Donald's is found in most of the shopping malls and neighborhoods in Venezuela. Wendy's is now expanding within Venezuela. Burger King is in the decline stage of the product life curve. It is because the owners changed from fast food operations to TV satellite operations. As a consequence, the advertising and promotion for Burger King as well as the ventures with the new movies featuring at the theaters were neglected. Pollos Arturos are the leaders in the chicken segment, actually expanding through all the country. Rockie's Burger is a new burger restaurant, starting with its franchising system. Chipi's burger is a franchise for up-scale customers because of its prices and type of restaurants. Chipi's offers on weekends' night live music and customers can buy beers. Crepe de France is a new French franchise starting in one of the coolest mall in Caracas-Venezuela. They are planning to open 3 more restaurants this year.

Specific Distribution and Sales Channels

For a company intending to establish itself within the fast food industry in Venezuela, would be best for its business to buy from wholesalers and sometimes from middlemen. Buying the raw material directly from the wholesalers would assure the best prices. Perhaps the company might find opportunities and good prices from middlemen, and retail stores, but this is not the usual method. After buying the materials (ingredients for the crepes), the company should establish itself as a retailer in the distribution channel. This should be its core business, that is, to provide products to customers. The fast food industry could also to play the role of middlemen when selling franchises of the

restaurants. Sales agents must be hired to perform this activity. Most likely the profit margin of the company will be based on the volume of sales. The greater the product sales volume, the more profit generated because the cost of infrastructure and labor will remain the same. Regarding to the return on investment rate, it will rise as sales increase. Figure 3 below illustrated how the company might use the channel of distribution to reach its customers. The gray box describes where the fast food company should place itself in the channel. The gray arrows represent the optimal ways for the company to reach the customers in order to get the highest profit.

Figure 3. Recommended Channels of Distribution for a fast food restaurant establishing in Venezuela



Marketing research might be done to identify the best way of entering the market; it could be either by franchising systems or licensing. Marketing studies may also describe where would be the best location for the company.

Franchising

Franchising is a growing method of doing business both domestically and internationally. Countries that are recovering from difficult economic times have produced a new crop of potential franchisees, well-educated men and women with business experience who are out of work or with a low salary work, but have a wide range of experience in business to offer⁴². Having sales agents in the field helps franchisers work with another recruiting tool such as the Internet. Almost all franchise systems now have web sites that allow entrepreneurs to submit inquiries about franchise opportunities and, sometimes, preliminary applications to purchase a unit⁴³.

Licensing

Another way to establish a fast food business without franchising is through licensing. Entrepreneur Michael Bloch started *Crepes-a-la-Cart* in late 1994. It is a firm that owns carts and kiosks from which individual entrepreneurs sell *Crepes*. By starting a company where individuals sign licensing agreements, the heavy costs involved in starting a franchising are avoided. In Venezuela there are no regulations to enforce the standards on the licensees.

⁴² Alon, I and McKee, D. Towards a macroenvironmental model of international franchising, 1999.

⁴³ Bennet, J. Companies go abroad for expanded ownership base, greater profits, 1999.

The licensor retains the control over the territory, where a licensee operates. A new license operator must pay a licensing fee to start a business. If the licensor does not like a location, a future move has to be approved. The licensors can charge whatever they want, and they are responsible for their own marketing. Licensees do not pay royalties, as do franchisees. Instead, they pay a quantity per month or 5 percent of their monthly gross sales, whichever is greater, to lease the equipment. Licensees have the option of using whatever name they like for their individual operations. It allows the owner starts a business with a fairly low price tag. With other franchises, there are additional costs and sometimes-higher employee costs⁴⁴.

Most of Venezuela's fast food restaurants are franchising systems. Franchising in Venezuela has more than doubled in the past three years. Fast food companies represent almost 24 percent of total franchises. It represents one of the sectors of the Venezuelan economy that have had risen more, approximately 20 percent per year. Venezuela is the third most important country in Latin America based on the number of franchisees. This kind of establishing businesses has been contributing to increase the quality of the services to the customers⁴⁵.

The franchising systems in Venezuela have two government organizations that support them. One is *Profranquicias* and the other one is *Asociación Venezolana de Franquicias*. These companies group different national and international businesses that are willing to operate their services through a franchising scheme. There are also some

⁴⁴ Wright, J. Ex franchisor bites into different food outlet field: licensing. 1995

⁴⁵ Maracara, L. Negocios de comida rápida toman al país, 1997

consulting enterprises that help and assess the businesses that can adopt the franchise concept ⁴⁶.

Location

There is a huge market activity performed on the streets with high foot-traffic in Venezuela. This is explained by the slow down in the economy –the fiscal year of 1998 ended with a GDP drop of 0.7 percent ⁴⁷. Unemployment rose from 11 percent in 1997 to almost 16 percent by the end of 1998; period in which more than 330,000 people found job in the informal sectors of the economy ⁴⁸. This factor could be an opportunity for establishing the fast food restaurant in streets, creating carts and kiosks that sell the product on the most popular sidewalks.

On the other hand, this new concept of selling fast food on the streets could represent a threat for the fast food restaurants located at food courts. A more in-depth market research should be done in order to get information about the malls that would have customers for the products that would be trying to be sold.

⁴⁶ Rodriguez, D. El boom de las franquicias, 2000

⁴⁷ Mueller, Hans, USDOC, International Trade Administration, Jan.2000.

⁴⁸ Economic Commission for Latin American Countries, 1999.

Conclusion and Recommendations

Revenues from oil exportation have allowed Venezuela to develop into a fairly wealthy nation. The United States and Venezuela have enjoyed strong trading ties for a long time. Currently there is a significant flow of U.S. fast food franchises established in Venezuela. This flow has not been greatly affected by the economic difficulties the country has been going through for several years, and there is general optimism, among international investors, about Venezuela's future due to its huge natural resources.

Even though the severe competition of similar products coming from many countries, there should be enough opportunities to establish a new fast food restaurant in Venezuela's market, based on the relation between the required investment and the estimated rate of return.

In Venezuela, business people are primarily looking for meal choices for lunch, as they can not drive home for lunch because of the accelerated business world in which they live. Most of the fast food consumers are requesting healthier menus and innovation.

The Venezuelan fast food industry is dominated by the American franchises. Most of these restaurants have become successful, because they target middle to high-income families. They have established a different concept for eating away-from-home. In the past years, Venezuelans' use to eat away-from-home in restaurants, where they have to sit down. Inflation that the country has experienced in the past several years, has benefited fast food restaurants that feature lower prices. Actually, in Venezuela, the fast food industry is in the growth stage of the product life cycle, so there are many opportunities to explore.

The national currency is a little bit over evaluated. This gives the imported product an advantage, in terms of prices, over the domestic product, but the national restaurants remain competitive. The American fast food franchises as well as the national restaurants are visited in the same rate.

Since Venezuela is a country in which 67 percent of the population is mestizo, this type of product might find good acceptance in this market. This is a niche not completely exploited. Further research regarding location is recommended. Based on the facts stated above, it can be conclude that Venezuela represents fast food industry market opportunities that international franchises and entrepreneurs should not ignore.

It would be prudent before starting the business, to begin with catering in order to test the market response. When starting this business, it will be necessary to develop an excellent advertising campaign, as the crepes are not so popular as the burgers. Whenever possible buy direct from the wholesalers or middlemen, as this will assure the best prices. A sale agent should be used to help find entrepreneurs to buy franchises, once the company entered the franchising system.

BIBLIOGRAPHY

1. Alon, I., McKee, D. Towards a macroenvironmental model of international franchising. Multinational Business Review. Vol. 7, Issue 1, p 76, 1999
2. Bennet, J. Companies go abroad for expanded ownership base, greater profits. The Wall Street Journal. B14, p 4, 1999
3. Biederman, David, Trade Barriers: South America. Traffic World; Washington; Aug 2, 1999.
4. Central Intelligence Agency. CIA World Factbook- Venezuela. Disk 1. National Trade Data Bank (NTDB). Washington, D.C. 6 pages.
5. Consejo Nacional de Promociones e Inversiones. Invest in Venezuela. <http://www.conapri.org/publi.html>
6. Country Commercial Guide-Venezuela. U. S. Department of Commerce. STAT USA-National Trade Data Bank (NTDB). Washington, D.C. July 15 1999.
7. David, M., Cultugrams '95: The Nations Around US- Venezuela. Vol. 1. Kennedy Center for International Studies Brigham Young University, 1994. 4 pages.
8. Destination Venezuela. Lonely planet 2000. <http://www.lonelyplanet.com>
9. Economic Survey of Latin America and the Caribbean – 1998-1999. Economic Commission for Latin American Countries, 1999.
10. Europe World Yearbook Vol I. London: Europa Publications Limited, 1997.
11. Franchising Marketing Data. <http://www.statusa.gov>
12. Franquicias generaron 40 mil empleos. El Universal, economía. Caracas, 16 de febrero, 1999.
13. International Marketing Data and Statistics 1998. 22nd Edition. Euromonitor, London, 1998.
14. International Trade Statistics Yearbook. Vol.II 1994. New York: United Nations, 1995.
15. Maracara, L., Negocios de comida rápida toman al país. El Universal, economía. Caracas, 19 de enero, 1997.

16. Mueller, Hans, Venezuela; Problems Continue with Textile Imports. USDOC, International Trade Administration, January 2000.
17. Rodriguez, D. 2000. El Boom de las Franquicias. El Universal. C-5
18. Statistical Abstract of the World. Marlita A. Reddy, Editor, Detroit, 1994.
19. The Illustrated Book of World Rankings. George Thomas Kurian Editor, 1997.
20. Venezuela Central Office of Statistics and Informatics (OCEI).
<http://www.census.gov>
21. Venezuela Country page. <http://www.worldbank.org>
22. Wright, J. Ex franchiser bites into different food outlet field: licensing. Sacramento Business Journal. Issue 11, Vol. 46, p 15, 1995.
23. Maps provided by Lonely Planet 2000. <http://www.lonelyplanet.com>

APPENDIX A

Key Industry Contacts

Key Industry Contacts in Venezuela

Asociación Venezolana de Franquicias (AVF)

Antonio Rosello, President,

Zaida Viscaya Davila, Executive Director,

Edif. Parque Cristal, Torre Oeste,

Piso 12, Ofic 12-2A,

Av. Francisco de Miranda,

Los palos Grandes, Caracas, Venezuela

PH: (582) 285-2575

FX: (582) 285-2096

e-mail: avfran@telcel.net.ve

Cámara Venezolana de Franquicias (Profranquicias)

3era. Transversal de Altamira, entre Avenidas Luis Roche y San Juan Bosco,

oficentro Neur, Planta Alta, Ofic. 5

Caracas, Venezuela

PH: (582) 261-8596

FX: (582) 261-9620

Oficina Central de Estadística e Informática (OCEI) (Central Statistics and Informatics Office)

Avenida Boyacá, Edificio Fundación La Salle

Maripérez

Caracas, Venezuela

Tel: 58-2-781-1380

Fax: 58-2-781-5412

Camara Venezolano-Americana de Comercio e Industria (VENANCHAM)
(Venezuelan-American Chamber of Commerce)

2da.Av. de Campo Alegre, Torre Credival, Piso 10, Ofic.A, Caracas 1060, Venezuela

Apartado Postal 5181 (Caracas 1010-A)

Telf: 58-2-263-0833/267-20-76/64-81

Fax: 58-2-263-20-60

Federacion Venezolana de Camaras y Asociaciones de Comercio y Produccion
(FEDECAMARAS)

(Venezuelan Federation of Chambers and Associations)

Edf. Fedecamaras, PH 1 y 2 , Av. El Empalme, Urb. El Bosque, Caracas 1050, Venezuela

Apartado de Correos 2568 (Caracas 1010-A)

Telf: 58-2-731-17-11/17-13/18-45/19-32/19-67

Fax: 58-2-742-097

Consejo Venezolano de la Industria (CONINDUSTRIA)

(Venezuelan Industry Council)

Edf. Camara de Industriales, Mezz, La Candelaria, Caracas 1011, Venezuela

Apartado Postal 14255 (Caracas 1011, Venezuela)

Telf: 58-2-238-52-95

Fax: 58-2-238-52-95

U.S. Embassy Trade Personnel

U.S. Embassy

Calle F con Calle Suapure

Colinas de Valle Arriba

Caracas, Venezuela

Charles A. Ford, Senior Commercial Officer

Mailing Address from U.S.:

U.S. Embassy Caracas

Unit 4958 - FCS

APO AA 34037

Tel: 58-2-975-6411 ext. 2382 or ext 2425

Fax: 58-2-975-9643

Roderick McSherry, Agricultural Counselor

Mailing Address from U.S.:

U.S. Embassy Caracas

Unit 4940 - FAS

APO AA 34037

Tel: 58-2-975-6411 ext. 2333

Fax: 58-2-975-7615

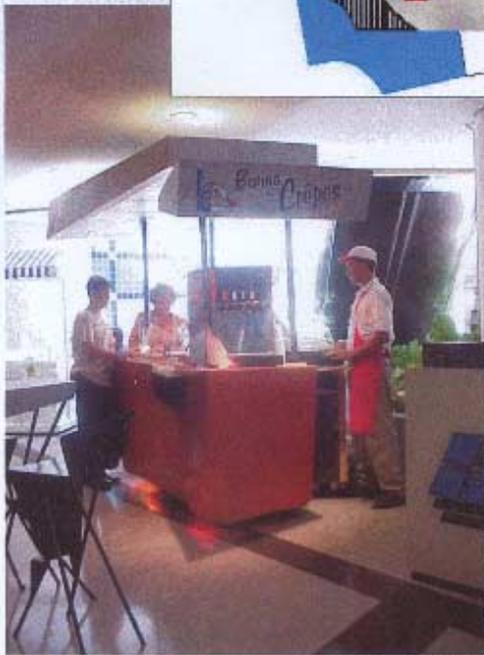
U.S. Government Contacts in Washington, D.C.

Thomas Welch
Desk Officer for Venezuela
Office of Latin America
U.S. Department of Commerce
Room 3025, 14th St & Constitution Av. NW
Washington D.C. 20230
Tel: (202) 482-4303
Fax: (202) 482-0464
E-mail: THOMAS WELCH/MAC/ITA/USDOC@USDOC

Trade Information Center
Trade Promotion Coordinating Committee
(Access to information on all U.S. Government export assistance programs)
Tel: 1-800-USA-TRAD(E) (872-8723)

APPENDIX B

Crepes carts and Kiosks

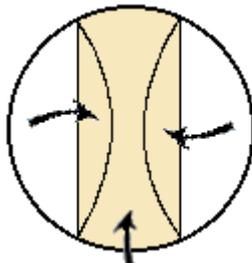




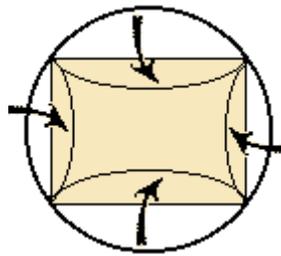
APPENDIX C

Ways to fold crepes

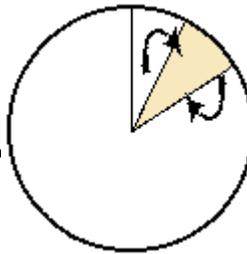
Do you know how to fold crepes?



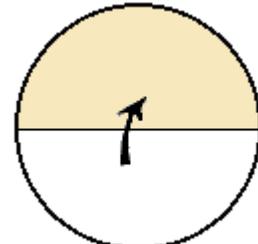
Rolled



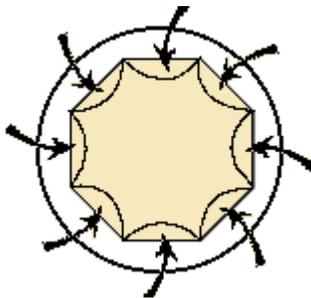
Pillow shaped



Coned shaped

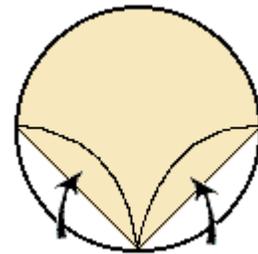


Like a newspaper

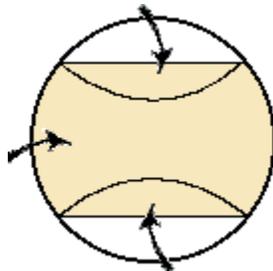


Octogonal

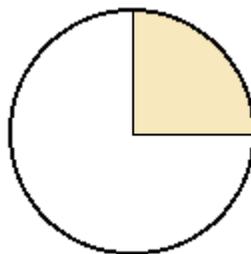
The ingredients you'll put on the crepe will determine the way to fold it. Here are 10 possibilities. Give all the interest to the support of your cook : your crepe.



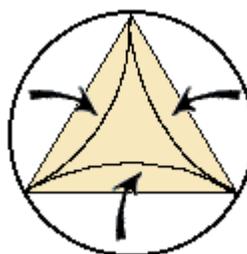
Fan shaped



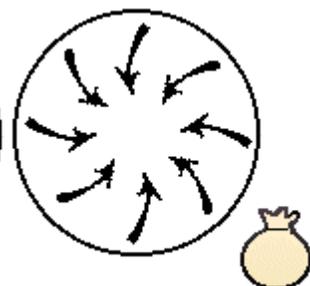
Rectangular



In four



Triangular



Like a pouch

