THE LURE OF CUBA

• Cuba represents an attractive market:
  – 11 million people
  – 90 miles from Miami
  – Highly educated
  – Quite safe

• But also challenges:
  – US embargo limits US companies and makes it hard on others
  – The Cuban government remains unsure whether it wants outside companies
  – Very low incomes limit purchasing power
  – Lots of infrastructure requires investment
MACRO-ECONOMICS

**Population (millions)**

- Dominican Republic
- Puerto Rico
- Panama
- Costa Rica
- Nicaragua
- El Salvador
- Guatemala
- Cuba

**GDP ($ billions)**

- Dominican Republic
- Puerto Rico
- Panama
- Costa Rica
- Nicaragua
- El Salvador
- Guatemala
- Cuba

**Mobile phones per capita**

- Dominican Republic
- Puerto Rico
- Panama
- Costa Rica
- Nicaragua
- El Salvador
- Guatemala
- Cuba

**Purchasing power per capita ($ thousand)**

- Dominican Republic
- Puerto Rico
- Panama
- Costa Rica
- Nicaragua
- El Salvador
- Guatemala
- Cuba

Source: World Bank
MARKET STRUCTURE OF CUBA RETAIL

Various agencies in the Cuban Government

Habaguanex
300 facilities including restaurants, shops, markets, cafes and 16 hotels and hostels

CIMEX
1,188 Panamericanas
363 gas stations (Servi-Cupet)
1,128 eateries from fast food to full service restaurants,
46% of retail sales
70% of gas station in 2006

Gaviota
~800 TRD stores

Horizontes
~247 Caracol stores

Palco
Smaller number of stores, but high end

Source: International Journal of Retail & Distribution Management, 2005; Reuters, 2010; direct interviews and retail store visits
RETAIL IN CUBA

• Stores of various sizes – full-size grocery about 20,000 sq ft; small grocery about 5,000 sq ft; convenience stores about half that
• Almost all stores open 10am – 6pm; C-Stores 8am – 8pm
• Assortment pretty similar across chains and formats; maximum assortment ~5,000 items
• Pricing consistent – from full size supermarket to convenience stores
• Some rationed stores still exist for subsidized essentials, but declining quickly; most stores take CUC (convertible Pesos) or local pesos (25 regular = 1 CUC)
• Shelves not empty, but sparse ... and significant out-of-stock issues
• Little advertising allowed – although point-of-purchase displays are observed
• Stores don’t do promotions
FULL-SIZE GROCERY STORE – TRD
FULL-SIZE GROCERY STORE – PANAMERICANAS
SMALL CUBAN GROCERY STORE - PALCO
DRUG STORE – FARMACIA INTERNACIONAL
CONVENIENCE STORE – MERCADITO AMELIA
A FEW OF THE BRANDS I SAW ON THE ISLAND
HOW PRODUCTS ARE SOURCED

Each chain has some commercial offices that are in charge of placing orders to the different vendors.

- Commercial Office
- Central warehouse
- Branches “Sucursal”
- Stores

Vendors (Brazil, Chile, Spain, Mexico, US)

Some of the biggest branches can contact the vendor directly and place an order.

Sales data (scan)
• Unclear legal frameworks within Cuba ... and uncertainty around how US will enforce the embargo – which remains in place

• All employees work for the state. Private employers pay the state to hire – and pay in dollars (CUC) while employees are paid in regular pesos (leaving a large profit for the state and the employees without much compensation)

• No private retail allowed. Rumor has it that the government may create a wholesale channel and allow independent neighborhood stores (like restaurants today).

• For manufacturers, getting listed is complicated. Execution varies widely ... but often not great.
RECOMMENDATIONS

If you want to prepare for entering the Cuban market

• You need to check with the lawyers on what is allowed (and it changes)

• There is work you can do today to lay the ground-work for market entry down the road
  – Understand the landscape
  – Meet with the government

• Right now, the US embargo is the biggest sticking point ... but the Cuban government will likely become the bottleneck
ABANDONED APARTMENTS ON THE WATER
A PRIVATE RESTAURANT
HORSES ON THE FREEWAY
UNUSED
Foreign Investment

**Business with Foreign Investment by Sector (2014)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Investment Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism</td>
<td>52%</td>
</tr>
<tr>
<td>Energy</td>
<td>11%</td>
</tr>
<tr>
<td>Industry</td>
<td>10%</td>
</tr>
<tr>
<td>Food</td>
<td>5%</td>
</tr>
<tr>
<td>Transportation</td>
<td>5%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5%</td>
</tr>
<tr>
<td>Construction</td>
<td>4%</td>
</tr>
<tr>
<td>Others</td>
<td>8%</td>
</tr>
</tbody>
</table>

**Business with Foreign Investment**

- 45% AEI* Investment
- 50% Companies with 100% foreign investment
- 5% Mixed

*International economic partnership*