

# Cuban retailing: from a centrally planned to a mixed dual system

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## Abstract

**Purpose** Many studies have analyzed the retail and distribution systems in transitional economies, either from a general perspective or by analyzing specific countries. However, only a few, if any, have analyzed the situation and changes taking place in the Cuban market. The purpose of this paper is to provide a current overview of Cuban wholesaling distribution and retailing for consumer products. It examines the challenges that are taking place in the wholesale and retail distribution system in the country and describes the sharp contrast between the state of retailing in Cuba before and after the collapse of the Soviet Union.

**Design/methodology/approach** – The research is principally exploratory, based on fieldwork and in-depth interviews carried out in Cuba during the first semester of 2003.

**Findings** – The analysis presents a fast-paced evolution process in the Cuban distribution system. Cuban retail durable and non-durable consumer goods market presents two different distribution structures: one in Cuban pesos, formed by the traditional socialist retail system, and a growing second structure formed by the new stores and wholesalers operating in US dollars. The dollar market encompasses many semi-autonomous government-owned and operated companies, vertically integrated, with store sales totaling over \$1.4 billion in 2002.

**Originality/value** The paper concludes by discussing the current and future opportunities for brand manufacturers and exporters, and the close relationship between Cuban retailing and tourism.

**Keywords** Cuba, National economy, Retail trade, Wholesaling, Developing countries, Distribution channels and markets

**Paper type** General review

## Introduction and objectives

The movement toward freer markets in the so-called transitional economies has led to great interest in the marketing literature, analyzing the challenges and issues unique to these economies (Batra, 1997). From the retailing perspective, many studies have analyzed the retail and distribution systems in these markets, either from a general perspective (Goldman, 1981; Kaynak and Cavusgil, 1982; Mueller *et al.*, 1993; Samiee, 1993) or analyzing specific countries, such as China (Blois, 1989; Chow and Tsang, 1994; Sternquist and Qiao, 1995; Luk *et al.*, 1998; Lo *et al.*, 2001), Vietnam (Venard, 1996), Russia (Huddleston, 1993), Poland (Cordell, 1993; Morton, 1993) or Romania (Lascu *et al.*, 1993), among others.

However, only a few, if any, have analyzed the situation and changes taking place in the Cuban market. Cuba appears to be in the midst of a gradual transition from a centrally-planned to a mixed economy. The country has attracted a large amount of foreign investment in recent years and is experiencing an increase in consumer purchasing power and westernization in its retail system. Cuba comprises half the landmass of the Caribbean, and with a population of about 11 million, it is the largest market in the region. It has a large endowment of fertile land with excellent growing

conditions, superb unspoiled resources for tourism as well as an extensive industrial infrastructure and a well-trained labor force.

Following the fall of the centrally-planned economies in Eastern Europe and the former USSR, Cuba began to accelerate its economic reform plans and the country's business climate has improved significantly over the last ten years. Over the past five years the Cuban economy has been growing at a faster rate than four of the six largest economies in the region. The country is located in a region whose share in world investment flows is rapidly growing. This, together with the country's potential and prospects for attachment to the Latin American integration process, makes hundreds of corporations interested in the market. Not surprisingly, more than 400 international economic associations and joint ventures from 50 different nations are operating now in the country.

Furthermore, Cuba has specific characteristics that make it very different from developing or transitional economy countries. Its distribution systems are neither fragmented nor long, as in the majority of transitional economies (Samiee, 1993; Mueller *et al.*, 1993). Moreover, the majority of retail sales occur through large chains, a typical characteristic of developed countries (Batra, 1997).

The purpose of this paper is to provide a current overview of Cuban wholesaling distribution and retailing for consumer products. We will examine the challenges that are taking place in the Cuban wholesale and retail distribution system in the country and describe the sharp contrast between the state of retailing in Cuba before and after the collapse of the Soviet Union.

In the first two sections, we provide a background on the current economic situation and a description of the methodology used in our research. In the following two sections, the article will provide a detailed description and analysis of the distribution system in Cuba, before 1990 and to the present time. A fifth section will describe the management challenges faced by foreign corporations doing business with the new Cuban retail corporations. Finally, we will present some personal thoughts with regard to future trends and outcomes.

### **Background on the Cuban economy**

Cuba's relationship with the former Soviet Union began to deteriorate after Mikhail Gorbachev rose to power in 1985. In 1986, Cuba suspended payments on almost US\$3 billion in foreign debt to western governments and consequently lost access to hard-currency financial markets. By 1991, Cuba had lost its most important markets and sources of manufactured goods and financial support. The inefficiencies of Cuba's centrally planned economy, which had been largely obscured by external subsidies, suddenly became glaringly apparent. Without Soviet subsidies, many state enterprises were closed and the government imposed the program called the "Special Period in Time of Peace" in September 1990. Cubans found themselves with a surplus of pesos but nothing to buy. From 1989 to 1993 Cuba's gross domestic product (GDP) dropped 35 percent, imports plummeted 75 percent and the deficit rose to 33 percent of GDP (Chatham, 1998).

The break-up of the Soviet bloc deprived Cuba of many traditional markets and sources of supply and the government actively started a drive towards economic diversification and the establishment of partnerships with foreign companies. The government introduced a few market-oriented reforms and limited measures toward

economic liberalization, including opening to tourism, allowing foreign investment, legalizing the dollar, and authorizing self-employment (private micro-enterprises) for some occupations. Within this context, tourism was viewed as a use of scarce investment capital that had a good prospect of producing high and rapid returns, and a way to create a market for diverse goods and services supplied by Cuba's domestic industry. The first joint venture was formed with Spanish hotel group Sol Melia in 1988 to build and run a hotel in the tourist resort of Varadero. This hotel opened in May 1990. In 1990, two more joint ventures were formed and by the end of 1991, there were a total of 14. Changes in foreign investment laws that further liberalize foreign investment, along with the expectation of further reforms, stimulated considerable interest from foreign companies and, by early 2003, the number of international economic associations and joint ventures had risen to 407 (Brier, 2003). The enterprises are broadly diversified in some 35 sectors, including tourism, agriculture, mining, petroleum, construction and manufacturing, with such well-known companies as Unilever, Nestlé, LG Electronic Group, Mercedes Benz, Siemens AG, Fiat SpA, Pernord Ricard, Altadis, and Sol Melia and Accor Hotel Groups. The investors are from 50 countries, with Spain, Canada, Italy, France, the UK, and Mexico reported the largest investors.

Cuba is now officially open to investment and trade from market economies in most sectors, and following Elimimian (1997) categorization, we could place Cuba as a transitional economy starting to develop, through a model of gradualism or "very constrained" capitalism (Shultz and Pecotich, 1997), where state corporations are permitted to reform themselves and therefore to function like private enterprises while concurrently encouraging more competition and a consumer culture. The nation has fairly normal trading relationships with nearly every nation in the world with the notable exception of the USA, representing a market of more than 11.5 million Cubans plus 1.8 million visitors per year. Just 14 years after re-entering the tourism market, Cuba has become the third most popular tourism destination in the Caribbean region, following behind Dominican Republic and Cancun; and the second destination in the Caribbean for Europeans. The attractiveness of these opportunities is mitigated by the continuing embargo on Cuba by the USA, including legislation that attempts to impose American Law on companies in other countries. While these American laws increase the risks for foreign companies moving into the Cuban market, they also prevent American competitors from entering the market. Several executives have pointed out that market opportunities are very interesting due to the lack of US competition. An executive from the Spanish Sol Melia Group, the leading hotel chain in the island, with more than 20 four- and five-star hotels, emphasized the importance of the non-presence of the large US hotel chains in this market. Another executive from Unilever made the same comment with regard to its long-standing competitor Procter & Gamble. Needless to say, Unilever personal and homecare brands are the leading references in the market.

### **Methodology**

This work is principally exploratory. Gathering market data is more difficult in Cuba than in most other countries, because there are few sources of information and analysis that are independent of the government and the media are not free to disseminate accurate descriptions of emerging developments. Often, official industry statistics are

incomplete. Some official data are released by mention during speeches by government officials, but there is no integrated source of information. For the most part, important business information must still be collected through interviews, usually with government officials or with executives of government or joint-venture companies. Even then, certain details remain shrouded in secrecy.

We used both secondary and primary research sources based on fieldwork carried out in Cuba during the first semester of 2003, when the authors held a visiting teaching position at University of Havana and a later visit during the month of December. In-depth interviews were conducted in the city of Havana with senior executives of wholesale and retail state-owned corporations, as well as with several expatriate executives of European consumer products multinationals. These include a total of nine interviews with executives of the four main retail chains in Cuba and five foreign executives from global corporations as Unilever, Nestlé and expatriates from Spanish consumer corporations leaders in their respective sectors, such as Central Lechera Asturiana (dairy products), Freixenet (wines) and Bravo (meat products). We have complemented these interviews with visits to different supermarkets and other retail outlets in the city of Havana.

We have taken an exploratory, qualitative approach in this study. The number of six retail chains in the country is not sufficient for statistical inferences. Furthermore, there is no database on store chains or number of outlets in Cuba. The six major retailers were contacted for interview, with the previous introduction by the vice-dean of international relations of the Faculty of Economics – University of Havana. Two of the six firms contacted refused to be interviewed due to company policies (Caracol and Habaguanex). The five foreign executives interviewed were contacted prior to our travel to Havana, through previous contacts in their main office in Madrid.

All face-to-face interviews took place in the city of Havana, where all major headquarters are located. All of the Cuban retail and foreign interviewees were senior executives responsible for the strategic decision making within their organization. Issues explored included their retail structure, trends and future projects, purchasing decisions, retail negotiations, relationships with Cuban and foreign suppliers and marketing developments in the Cuban market. Each interview lasted up to three hours and due to socio-cultural considerations, was not taped.

Finally, for some of the secondary data used in this research, we also had the support of a major Cuban government consultancy agency controlled by the Ministry of Foreign Investment and Economic Cooperation – Consultores Asociados (CONAS) – whose general manager was a former professor at the University of Havana and a PhD graduate from the University Autonoma of Madrid.

### **Cuban retailing before the collapse of the Soviet Union**

Before the Cuban revolution in 1959, the distribution system in Cuba could be considered as modern, due to the proximity to and retail investments from the USA, as well as its open economic policy. As an example, the main leading department store in Spain – El Corte Ingles – was founded by an employee of a large Cuban department store fleeing the country after the revolution.

Just three years after the revolution, food rationing was officially established in Cuba in March 1962, with the distribution of one rationing booklet to every household. The rationing system was placed in the hands of the Ministry of Internal Trade.

Practically all food items and personal care products were included in the first rationing scheme. Each household was entitled to purchase, at subsidized and often artificially low prices in Cuban pesos, a specific quantity of the rationed items, depending on the number of consumers listed in the ration booklet issued to each household. Needless to say, the quotas have not remained static over time. As production of some fruits and/or vegetables increased, these items were taken out of the rationing system and sold freely; when they became scarce again, they were returned to the ration booklet.

### **Government stores for the distribution of the rationed goods**

There were, and still are, two main outlets selling products in the ration booklet: the *bodegas* and the *puestos*. In its broadest definition, a *bodega* is an outlet for the selling of food products, or a food store. Usually, a small store located in almost every neighborhood. A *puesto* is usually a small outlet for the distribution of fruits and vegetables. These two outlets have been in existence since pre-revolutionary times, but were expropriated and later became the only outlets involved in selling of rationed food. Others have been added in some neighborhoods while some have been closed with the passage of time.

Other shops and department stores were also opened to the public for the selling of appliances, household and clothing products, most of them imported from the Soviet Union and Eastern European countries. The majority of them were also rationed at subsidized prices. Besides these outlets, almost all Cuban cities had bars, restaurants and ice-cream outlets, which were all government owned and controlled. Some state-controlled chains were also developed, such a FrutiCuba, devoted exclusively to the selling of numerous fruits and vegetables in the mid-1960s. Also, Free Peasant Markets were in existence from 1980 until 1986, when they were closed.

Until 1990, there also were special stores for foreigners and the diplomatic community (*Tienda Diplomática*), which resembled those established in other socialist countries such as the *birizka* shops in Russia (Huddleston, 1993), the Friendship Stores in China (Sternquist and Qiao, 1995) or the Diplomatic and Comturist Shops in Romania (Lascu *et al.*, 1993). Sales in these stores were in convertible pesos or dollars, and Cubans were not allowed to shop as the tenant of foreign currency was forbidden.

In 1990, following the collapse of the Soviet bloc, the Cuban government announced the revolution would be entering a new phase that would require the launching of an economic adjustment program, called "the special period in time of peace", most commonly known as "Special Period". As food and other subsidized commodities began to disappear, Cubans were hit with a devastating economic crisis that reached its peak in 1994, culminating in a massive exodus out of the island and a tightening of the US embargo. Almost 12 years after the establishment of the special period, quota amounts had yet to equal those in the 1980s. Dramatic examples of meager quotas include one pound of chicken per month, six ounces of coffee per month, six pounds of rice per month, and many others. According to the Center for the Study of the Cuban Economy of the University of Havana, it has been estimated that the rationing system supplies around 49 percent of calories, 40 percent of vegetable proteins, 30 percent of animal proteins, and 19 percent of fats of the daily intake of the Cuban population (Nova, 2000).

Furthermore, after 1990, the ration system only provides some basic food staples such as sugar, bread, flour, rice, beans, and a limited availability of personal care products, such as toothpaste and soap, that in any case cover the daily needs of Cuban households. Despite the fact that these products are sold at subsidized prices (also at the same price throughout the country), their supply always falls short. Since, according to the majority of Cubans, the rationed items are not enough to feed a person for the entire month, Cubans who can afford it are forced to fulfill their needs for the remainder of the month through purchases in the other outlets allowed and/or set up by the government. Other products, such as most meat, dairy products and oil could, for instance, only be obtained on the high-priced new dollar stores or the black market.

### New retailing in the 1990s

The establishment of the "Special Period Program" in September 1990, together with the legalization of the holding of foreign currency and remittances from abroad in 1993, and the creation of the free agricultural markets in 1994, have added new dimensions to the former centralized retailing scenario.

Cuban retail durable and non-durable consumer goods market presents two different distribution structures: one in Cuban pesos, formed by the ration food stores, agricultural or farmers' markets, and non-ration consumer products stores that sell low quality household Cuban made products and used clothes, generally obtained from international donations. A second structure formed by the new stores, wholesalers and workers organizations selling to their own employees, all of them operating in US dollars (see Figure 1).

### Free agricultural markets

In September 1994, the government legalized private farmer's markets (*Mercados Libres Agropecuarios* (MLAs)). Cooperatives, private farmers, and state farms are now free to sell their products through private markets once they have met their quota for the state. However, these MLAs show what may be the quintessential enigma of Cuba's agricultural economy: how is it that food supplies in the MLAs, which are supposed to be "surplus" production, remain high while food supplies in the ration stores are not sufficient to meet the needs of the population?. One Cuban executive refers to the



**Figure 1.**  
Chain market distribution system

opening of the MLAs as an attempt by the Cuban government to, among other things, “bleach” the black market. Functioning under the Ministry of Internal Trade, there are 332 throughout Cuba, 64 of them in Havana, representing approximately 70 percent of the value of sales of all MLAs of the country. Products not allowed in the MLAs include potatoes, coffee, cocoa, beef, and eggs.

MLAs were conceived to function in a competitive manner where the laws of supply and demand would determine prices. For instance, almost all prices are very similar, but private farmers started being more market-oriented and establishing ways to foster customer loyalty, such as better product quality, treatment and services. Also, price differences started to appear in some products. For instance, in the same market, the pound of pork beef sold by state cooperatives is generally 20.5 pesos cheaper than the pound sold by private farmers. Generally, part of the difference is a question of quality, and the other is what Cubans called “the price of the queue”. The 20 pesos state outlets have a long queue and waiting time; the private farmers hardly any. Time starts having its price in the Cuban economy.

### **Stores and chains selling in dollars**

The first supermarket or “dollar store” opened to the general public was established in 1991 in Havana, within the facilities of the Hotel Comodoro and managed by the Cubanacan Corporation. Its presence was mainly focused on the increasing tourist population that was visiting the country. These stores mushroomed after the process of reform started in July 1993, when the right to hold and use foreign exchange (i.e. US dollars) was granted to the population. This led to much larger flows of family remittances from the USA, which quickly became Cuba’s third-largest source of foreign currency, after tourism and sugar. Besides foreign remittances, other important sources of US dollars are: tips from tourism, foreign employees, Cuban workers with a percentage of salary in US dollars, and workers’ organizations which trade their products in dollars. Furthermore, the exchange of non-convertible pesos for dollars was legalized in 1995 through official exchange agencies (*Cadecas*) operated by the government all around the country. This move undermined the black market, contributed to a decline in consumer prices, provided dollars for the new retailing formats, and also helped to absorb excess liquidity in the economy.

Today, retail stores selling products for dollars are scattered throughout Cuba. They are known as dollar stores or TRDs (stores for recovering foreign exchange). In all of these retail stores, products that have been imported or produced domestically are sold for dollars, ranging from food, household, appliances, clothing, electronics and others such as home improvement products. As opposed to other economies in transition, such as China (Chow and Tsang, 1994), Romania (Lasca *et al.*, 1993), Hungary (Feick *et al.*, 1995) or the Czech Republic (Savitt, 2001), that allowed joint venture with state enterprises or private entrepreneurs in retail business, the Cuban government still restricts foreign investment from entering its domestic distribution system. Therefore, the chain retail dollar stores are owned and controlled by government corporations.

Moreover, the transfer of new retailing formats into the country – such as supermarkets, fast-food restaurants or shopping malls, have not faced the problems of demand or supply factors pointed out by Goldman (1981). On the supply side, joint ventures with leading multinationals have provided the complementary technologies

in the area of packaging, branding and product standardization needed for the developing of modern retailing. On the demand side, the situation of a “sellers markets”, the increasing availability of dollars among the population, a centralized price setting policy for all products around the country, and a high level of education and urbanization with its corresponding shopping patterns, have all encouraged the extensive development of new retail formats.

The Cuban dollar market encompasses many semi-autonomous government-owned and operated companies. The leading retail chains are all part of these state-run conglomerates that have activities in all areas of the economy, including hotels and other tourist facilities, transportation services, warehouse and logistics business, wholesaling and in-bond services, rent-a-car and taxi services, and real state and construction businesses. The companies are incorporated and some of them are even registered in other countries and have intense international operations. Generally, these companies control their own hard-currency revenues and can make purchases on their own account. Incorporated companies must remit a monthly payment to the government. The amount is negotiated between the government and the company directors (The Canadian Trade Commissioner Service, 2001). In just ten years, these semi-autonomous corporations have developed an extensive network of retail formats around the country, ranging from small self-service stores, medium and large supermarkets, shopping centers, fast-food restaurant chains, pastry and bakery shops, ice-cream chains, photo shops, and convenience discount stores (\$1, \$3, \$5, and \$10 stores); all of them selling in US dollars.

They are vertically integrated, as their holding corporations are part of the few approved entities that can directly import products into the country, and therefore they are importers, wholesalers and retailers. Sales have risen with the growing availability of dollars to a broad cross-section of the population, which have pushed the retail chains to turn their focus from tourist and diplomats to the mass public and to increase purchases (domestic and imports) as well as the number of stores. Total sales in the dollar stores increased from below \$50 million in 1992 to over \$1 billion dollars in 2000 (*The Economist*, 1999). Officials estimate that around 60 percent of all Cuban households now have access to dollars, either from legal work, such as self-employment or bonuses, from remittances from relations in the USA or Europe, or from a host of illegal or unregistered jobs, ranging from driving taxis to guiding tourists. On the other hand, the government practice of setting retail prices for dollar transactions at the range of 1.9 to 2.7 times the cost of goods keeps prices well above the international average, and therefore, out of reach for most consumers. The average salary of a Cuban worker is 300 pesos per month (US\$12). However, they are the only places Cubans can buy some basic necessities such as cooking oil, pasta, toothpaste, soap or detergent, and though expensive, at least they are available in the market to improve the quality of life of a growing number of Cubans – those with access to dollars. Moreover, the government philosophy is to charge a high price – like a tax – to those Cubans that have access to dollars and can buy products that other Cubans cannot. This “tax” can subsidize products for those buying in the ration stores in Cuban pesos.

There are no statistical data with regard to the total number of distribution outlets, sales and market share. However, year after year, new shopping areas and big and modern supermarkets are purpose-built, which do not in any way resemble the outlets



selling products in pesos. We have collected data based on interviews and in-company information provided by some foreign corporations doing business with the Cuban retail structure. At the end of 2003, there were six main retailers in Cuba, with more than 2,450 Dollar retail stores (not including food and beverage outlets). Most of them are located all around the country with different retail formats. Table I shows the main retailers, its controlling corporations and its retail evolution in the last ten years.

Cimex Corporation, founded in Panama in 1978, is Cuba's largest trading company and the biggest of all distributors in terms of points of sales, with total sales of approximately \$1.2 billion. Cimex SA's five US Dollar retail subsidiaries reported having a combined 2,000 individual outlets throughout the country (Cimex, 2002). Cimex operates the biggest chain of food and household stores in the country – Tiendas Panamericanas (950 outlets) – as well as the largest network of gas stations under the name of Servi Cupet (a total of 119), the main photo-service retail chain (47 shops), the duty free shops at Cuban airports, 100 Western Union money transfer outlets, and the leading fast-food chain in the country: El Rapidito (The Fast One), a Cuban equivalent of a McDonalds or Burger King fast-food restaurant with 117 outlets. Cimex also manages and controls the largest shopping centre in Havana – Centro Comercial Carlos III, inaugurated in October 1997 – and the new La Puntilla department-store, the largest of its kind in Cuba, opened in early 2002.

Gaviota SA, with its TRD Caribe chain founded in 1994, is the second largest distributor in terms of retail outlets with 800 around the country (Contreras *et al.*, 2002). It also operates the Havana Department Store "La Epoca", the first of its kind in Cuba. Its Corporation, Gaviota SA, is a multi-business tourism company controlled by the Revolutionary Armed Forces.

Cubalse is a trade and service corporation integrated by 12 subsidiary companies, covering diverse business such as retail stores, shopping centers, financial services, real state and construction, technical services, vehicle sales and services, and employee contracting agencies. Cubalse initiated its retailing business with the management of the diplomatic stores during the 1970s. In dollar figures, Cubalse is the largest distributor in Cuba, with sales over \$400 million in 2001. Sales in its Meridiano Stores totaled \$135 million in 2001 (Cubalse, 2002). It has a network of nearly 250 stores throughout the country, including supermarkets, hardware stores and boutiques, and three main shopping centers: El Nautico, 5ta, and 42, and the second largest and newest in Havana city – Galerías Paseo – just in front of the prestigious Melia Cohiba Hotel. Cubalse also operates the largest supermarket in the country – Supermercado de 70 – that was the former diplomatic store in the capital.

Chain of outlets	Government corporation	1991	1994	1997	1999	2001	2003
Panamericanas	Cimex SA	40	135	348	631	835	950
TRD Caribe	Gaviota SA	n/e	66	193	344	420	800
Meridiano	Cubalse SA	7	60	85	138		250
Universo	Cubanacan SA	6	15	80	85	96	190
Caracol	Horizontes Hoteles SA	114	151	172	144		247
Habaguanex	Habaguanex SA	n/e	n/e	9	9	25	54

Note: n/e: not established

Source: Company interviews

**Table I.**  
Main retail chains in the Cuban market (number of outlets)

Cubanacan SA accounts for more than 70 percent of the tourist market. Many of the tourist hotels, administered as either international economic association contracts or joint ventures, involve Cubanacan. Cubanacan operates the Universo Chain stores, with seven shopping areas, similar to small and medium shopping malls, including the most fashionable in the country located at the Comodoro Hotel in Havana; 25 small department stores and 68 general merchandise stores, most of them within its hotel network. This corporation also runs a chain of 28 specialized tobacco, rum and coffee boutiques. In the capital city of Havana, the stores are more specialized, such as clothing, jewelry and shoe boutiques. In the provinces, most of the stores are general merchandise outlets. Cubanacan also manages the international franchises established in Cuba, such as Italian-based Benetton (clothing) and Chicco (child products), Spanish-based Mango (clothing), French-based Pain de Paris (bakeries) or Canadian-based PizzaNova (fast-food pizzas).

Habaguanex Corporation belongs to the historical office of Havana. It was established to develop three- and four-star hotels for international tourists in the Historic Centre of Old Havana. Habaguanex controls all retail outlets in Old Havana, a total of 42, including the Harris Brothers five-floor department store and a large supermarket (La Isla).

Caracol belongs to Horizontes Hoteles SA, a hotel chain with more than 7,000 rooms. This retail chain is more specialized in tourist areas and main historical places, focused mainly on tourists and selling food, drinks, personal care products and souvenirs. Its stores are mainly located in hotels, representing a 60 percent of intra hotel stores in the country.

### **Mix and assortment in Cuban supermarkets**

Supermarket assortments tend to focus on a small group of core categories, such as cooking oil, pasta, soup, biscuits, spices and condiments, dry milk, canned foods and vegetables, processed meat, carbonated drinks and beer, toothpaste, soap and detergents. Merchandise is more or less arranged in logical order, as a result of copying supermarket displays from Europe and the advice of many expatriates involved in commercial activities within consumer product joint ventures.

The visits to Havana supermarkets revealed an average store size of approximately 20,000 square feet with 5,000 items. Stores are departmentalized with most space dedicated to dry grocery. They have limited square footage for frozen/chilled brands or personal care items. The product assortment reflected a mix of Spanish and Canadian origin price brands, Cuban brands, and global brands sourced from adjacent countries such as Mexico, Colombia and Venezuela. Brands as Gerber, Barilla, Del Monte, Nestlé and Coca Cola can be seen on store shelves, as well as a wide variety of private label products from Canadian and Spanish suppliers. We even found Haägen Dazs ice cream (at \$12 for 500 ml) at the newest supermarket in the city of Havana – Supermercados El Palco – managed and controlled under the auspices of the Council of State.

Besides supermarkets, the rest of outlets could be classified as general merchandise stores. These stores vary in size from five-storey department stores to 7,000-square-foot variety outlets. All offer pretty much the same general product mix, ranging from groceries to apparel and consumer electronics to major appliances. Hardware departments range from about 6,000 square feet, much of which is self service, in the larger stores to a small enclosed counter featuring a few Cuban- or

Mexican-made hand tools, security locks, plumbing fixtures and even houseware in the smaller units. Most of non-food stores rely on counter service for most goods. This is very much a reflection of loss prevention, as Cuban retailing does not yet employ sophisticated electronic security devices. All other durable products, such as cars or motorbikes, can only be purchased under license by the government.

### **Sales and marketing management with retailers**

Until 1997, foreign subsidiaries or commercial agents registered in the country could sell directly to retailers and wholesalers. Currently, no foreign company may distribute or take possession of goods directly, and must hire a registered state-owned, authorized distributor to handle goods physically for customers. Joint ventures and companies involved in cooperative production agreements can distribute directly to retailers and wholesalers, through their Cuban partner. Registration does, however, permit marketing and after-sales service activities as well as importing goods to a bonded warehouse to support local sales and carrying out activities such as assembling and packaging according to local demand.

In order for a product to enter the distribution system, it must first be sent to the coding department of the purchasing head quarters for the large retailers where it will be referenced. This can be done directly through the large retailers (e.g. Cimex, Cubalse or Cubanacan) or through another authorized Cuban distributor. The purchasing headquarters add the retail mark-up, which ranges from 1.90 for locally produced items to 2.70 for imported products. The final price, by law, must be a multiple of 5, since they use the denominations of US dollars: 5, 10, 25 and 50 cents; retail mark-up is set by the government. Although there are differences in store location, assortment or ambience, prices are nearly identical in all retail formats, as they are centrally controlled by the Ministry of Finance. The entire legal process from negotiation to product registration to arrival on shelves of the stores may take as long as six months.

Buying and distribution decisions are made at central headquarters in each chain of outlets, though store and department managers do have input. Each regional or national head office of chains of outlets assigns a budget purchase to each outlet per month. Therefore, a lot of effort has to be devoted to retail outlets. Brand managers negotiate directly with each store manager, and then notify the Cuban distributor for the delivery of merchandise. In those companies that can not sell directly to retailers, such as wine and sparkling wine maker Freixenet, brand managers accompany each of the 30 salesmen of its Cuban distributor Habana Rum & Liquors on a work day. For the most part, consumers are not very loyal to brands, and price is a key factor in consumer demand. At the distributor level, loyalty is also a problem. Buyers for the largest retailers are changed regularly, and they change the brands in their retail outlets. There is still no concept of brand building, although some of the large chains, such as Cimex are working along this line.

Priorities for supplying the stores, whether food or non-food products, are: first, products of national origin; second, mixed enterprises (companies with foreign investment, either joint ventures, international economic association contracts, or cooperative production agreements); and third, direct imports.

Government tries to increase the percentage of Cuban-made goods sold in the new dollar stores, and based on the latest information, it seems to be succeeding. For instance, in 1993, 85 percent of all canned beer and carbonated drinks sold in stores and

hotels were imported. Today, Cuban-made beer and drinks account for more than 85 percent of national sales, under joint venture production arrangements with Canadian company Cerbuco (beer) and Swiss-based Nestlé (carbonated drinks and mineral water). In total terms, it is estimated that Cuban-made products accounted for 58 percent of all dollar stores sales at the end of 2002, up from 20 percent in 1994 (*Gamma*, 2002; Ross and Mayo, 2003). The Ministry of Internal Trade sets these objectives and controls which retail chain is better positioned to meet the objectives. Retail mark-up prices are also set depending on Cuban or non-Cuban origin. Cuban products are marked up by 190-210 percent. Non-Cuban-made products by 240-270 percent. Due to this situation, Spanish wine Freixenet group has established a cooperative production venture to bottle wine in the country. This allows Freixenet to reduce tariffs, set the mark-up price at 190 percent, and also distribute directly to the chain stores buying departments and retail outlets.

Competition among retailers is focused on good location and wide assortment of products. As advertising is not allowed in the country, no retail chain can undertake any advertising or promotion outside its own facilities.

As all types of conventional advertising was forbidden (television, radio, newspapers, magazines, billboards, etc.) by the government in 1999, after a short period of some flexibility (1996-1999), companies needed to place a lot of effort in merchandising and point-of-purchase activities. Store managers have some freedom with respect to the product merchandising programs, with prior authorization from the chain headquarters. Companies do not have to pay anything for these types of activities, at least officially. Preferential shelf space or ends of supermarket aisles cannot be purchased. Neither can price promotions be carried out unless the products are nearing their sell-by date. Although there is still little evidence of traditional merchandising activity beyond mass endcap displays of Cuban brands, many leading brands have begun to make a great deal of effort in these activities, and some well-lit displays with L'Oréal, Unilever and some Cuban global brands (e.g. Havana Club Rum or Cohiba Cigars) can be seen in the main shopping malls in the city of Havana. Unilever, for instance, has five people dedicated full-time to support store displays and customer incentives at point of purchase. Gifts have to be of low value, such as T-shirts or caps, all displaying Unilever brands, a form of allowed indirect advertising.

### **Conclusions and future developments**

As discussed by Shultz and Pecotich (1997), the Cuban government has followed some of the successful strategies by transitional economies in Southeast Asia, China and some of the former European socialist countries. By developing a modern retail structure, though with high selling prices, the leaders of the Cuban government have created a form of market socialism that has been "successful" because it has helped the recovery from the economic and social problems of the 1990s and has balanced macroeconomic forces, political control and societal warfare.

Dollar stores sales totalled 1.22 billion in 2001 (Spadoni, 2003) and 1.4 billion in 2002 (interviews). It could be said that the immediate volume opportunity is modest and the process complex. However, the cost of entry is low, with no listing fees or consumer spending budgets required. Moreover, it is estimated that dollars sales will increase by 20 percent annually (Nova, 2002), as the large retailers continue to invest in new shopping centers and new supermarkets all around the country, and as an increasing

number of state-owned enterprises are establishing their worker organization shops selling products in dollars to their employees at a discount price (their retail mark-up is established at 1.10-1.15). For instance, 20 percent of Suchel Lever sales are invoiced to this type of clients.

Furthermore, Cuban retailers are beginning to computerize their purchasing, logistics, warehousing and point-of-purchase control systems on a large scale. Now, 98 percent of consumer sales are scanned, which gives the purchasing head quarters a good measure of control over their chains of stores. This also allows for better sales forecasts and brand and supplier analysis. With this computerization of the processes, new competitive concepts are arising, along with worries about product rotation. Some foreign joint ventures are developing information alliances in order to establish joint merchandising or trade marketing programs, as well as the still somewhat shaky beginnings of category management, key account management, and just-in-time delivery.

It is a fast-paced evolution process in the Cuban distribution system. The beginnings of competition between chains can be seen, with clear placement and differentiation strategies – most in design, merchandising and services – as prices are the same all over the country. There are also signs of greater specialization and positioning of the chains. Cubanacan in upper scale and luxury boutiques; Cubalse in shopping malls, general merchandise stores and large supermarkets; and Cimex in medium and small size supermarkets and convenient stores.

For brand manufacturers and importers, competition focuses on establishing close relationships with the retail chains and gaining shelf space. First to entry advantage is a reality in the Cuban market and companies need to have a permanent presence in order to increase their brand exposure and maintain retail service and relationships.

Finally, and as pointed out by Batra (1997) with other transitional economies, the Cuban economy is changing so rapidly that any description of what its markets look like is very likely to be out-of-date by the time it appears in print. Growth of Cuba's dollar retail market, to a large extent, is contingent on continuation of a relatively high level of remittances and increases in foreign investment and tourism.

The dynamism of the Cuban tourist sector has attracted most of foreign direct investment in the country, acting as the engine for the Cuban economy. The rapid growth of the tourist industry has resulted in exactly what Cuban government has sought – an influx of dollars and foreign direct investment. The government funnels much of this money back into the major tourist conglomerates, with activities in all areas of the economy, including retailing.

Spending by tourists directly injects foreign funds into the local economy, creating income and employment for those who sell their goods and services to the tourist sector. CEPAL estimates that tourist-related employment, both direct and indirect, accounted for 6.9 percent of total employed in 1998 (Cepal, 2002). Tourism and foreign direct investment increase the amount of Cubans who do have access to dollars, and consequently, increase their purchasing power, which generally ends up in the government-controlled dollar retail outlets. For instance, some examples for the tourism workers are (Peters, 2002):

- Entertainers in a Spanish-operated Varadero hotel are paid a small peso salary plus a monthly cash supplement of \$80.

- A maid in another Varadero hotel earns a salary of 288 pesos each month (\$11) plus about \$30 in tips.
- A waiter in a Varadero hotel earns \$5-\$25 daily in tips, from which he contributes a few dollars each day for the benefit of other hotel workers who earn no tips.

Moreover, tourism supports Cuban entrepreneurs. If the words “*Cuba casa particular*” (Cuba private home) are typed into an internet search engine, the results will show how some of Cuba’s licensed entrepreneurs – the 6,000 who rent rooms in their homes to tourists, business travellers, and other visitors – are marketing their services in US dollars to the world. Most of these small “hoteliers” employ maids, laundry assistants, night guards, etc., all paid in dollars. Other members of Cuba’s community of 150,000 licensed entrepreneurs – artists, taxi drivers, private restaurateurs – also derive their income from tourism.

Perhaps the greatest unknown is the future of travel restrictions for US tourists to Cuba. Lifting of the US imposed restrictions on travel could result in a large number of tourists going to Cuba. Based on the Caribbean Tourism Organization, during the year 2000, Cancun was number one in visitors, followed by the Dominican Republic and third was Cuba (without US leisure visitors). As soon as Cuba opens for US leisure travel, it will move to the first position.

Although travel estimates vary widely, without US travel restrictions, tourism and consequently, foreign direct investment and dollar retail sales will increase significantly. The head of the American Society of Travel Agents (ASTA) predicted in 2002 that if the travel ban were lifted, one million Americans would visit Cuba in the first year, increasing to five million within five years (Murray, 2002). In June 2002, a report issued by the Center of Sustainable Tourism at the University of Colorado estimated 950,000 American tourist arrivals in year one and 2,7 million arrivals in year five (Sander and Long, 2002). Most recently, a new report based on travel patterns of closely comparable groups (Canadians vs Americans) estimates that 2.8 million American tourists would visit Cuba annually (Robyn *et al.*, 2002). This scenario would create a substantial flow of dollars into the market and consequently, an increasing demand for the new retail system.

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#### **Further reading**

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