

Next Stop Cuba

Fidel Castro died on November 25, but buzz around Cuba appears at an all time high. Millions of USA citizens wish to visit Cuba, to see what they've been missing the last 50 years. Obama facilitated the opening with the restoration of diplomatic ties and approval for up to 110 daily flights from the USA. Investment in tourism related infrastructure and services should trickle down to the Cuban consumer. I visited Cuba in September as part of a distributor search project. The future appears bright, but expect progress to inch forward until Raul Castro retires in 2018.

Cuba Today

Cuba claims a population of 11.4 million, the largest in the Caribbean. Cuba is a sun drenched island with over 2,200 miles of coastline, located just 90 miles from Florida. Chief exports are sugar, tobacco (Cuban cigars), and nickel. The government controls many aspects of Cuban life, with over 72% of the population employed by the government. Cuba citizens depend on more than \$3.5 billion in direct remittances from relatives residing in the USA. The per capita remittance levels are double the annual salary of \$350 per year.

Tourism

Cuba welcomed more than 3.5 million tourists in 2015, + 16% versus previous year. This includes more than 1.3 million Canadians. USA citizens are permitted to visit Cuba under 12 visa classifications, mostly related to visitation of family members, educational exchanges or commerce. In 2016, more than 250,000 Americans visited Cuba, an increase of more than 70 percent. A key issue is that Cuba offers only 63,000 hotel rooms, mostly in the beach areas away from historic Old Havana. Still an enormous potential exists, as the Dominican Republic receives almost 6 million visitors per year.

Consumer Products Business

Cuba is an island, with very little local production of branded goods. As a result, Cuba imports a high percentage of their products from Venezuela, Europe (Spain), and the USA. The TSRA act of 2000 facilitates the sale of USA food and medical products on a humanitarian basis. Cubans receive a ration book called Libreta which provides them access to basic foods like coffee, meat, and rice at highly subsidized (12% of true cost?) rates. 9,000 government controlled stores exist under the TRD, Cimex, Caracol, Habaguanex, and Palco banners. A key issue is the retail mark-up of 200-250% on supermarket brands and the irregular availability of most products. The foodservice sector (ITH) is important for many international brands.

Route to Market

Consumer products are obtained through government tender. This lengthy process involves approvals from a purchasing committee, contracting committee and finally a government ministry. Contract fulfillment is always dependent on availability of hard currency. USA purchases must be prepaid or use Letter of Credit. Payment terms to distributors/importers can stretch to 180-250 days or longer.



Distributors, Importers, Brokers

Anyone can interact with Cuban purchasing committees and bid on tenders. The reality is that many companies partner with a representative to facilitate the process. Most of the work revolves around successful contract negotiation, supply chain, and payment.

Distributors execute simple marketing activities like sampling and point of sale placement. However, companies dream about regular availability of their brands on the shelves and payment within six months versus advanced marketing strategies. There are a handful of distribution experts working to help brands. For USA companies, the key is to work with a Cuban or Miami based company, committed to comply with all USA laws and regulations.

The Future

Cuba is poised to become a major tourist destination for USA citizens. USA manufacturers are well positioned to gain "first one in benefits," as the market evolves. As with other islands like Puerto Rico and Malta, the country will be dependent on external suppliers for most of their requirements. Short term will require patience and modest volume. Pioneers may be rewarded, so there are intangible incentives to start now. Trump's threat to roll back new agreements is hopefully a negotiating tactic. It is apparent that most welcome a new chapter in Cuba's history. Many USA companies have already invested in the tourism and infrastructure sectors. Cuba is a minimum 3-5 year pay out, but potentially the #2 market in the Caribbean after Puerto Rico for most USA suppliers.

Visit Cuba Now

Best bet is to conduct a market exploratory visit. This requires a special visa. Your first trip will allow you to visit stores, talk to consumers, and judge potential for your company. Importantly, you will see Cuba at a pivotal time in its history and create new memories. Contact Export Solutions at gseminara@exportsolutions.com for more information.