PRICESMART'S AMIGOS Y FAMILIA PROGRAM FOR EL SALVADOR

Don Sciglimpaglia, College of Business Administration, California State University San Marcos, 333 S Twin Oaks Valley Rd, San Marcos, CA 92096, dsciglim@csusm.edu

Feraidoon (Fred) Raafat, Fowler College of Business, San Diego State University, 5500 Campanile Drive, San Diego, CA 92182, 619-594-5685, fraafat@sdsu.edu

Nathan Oestreich, Fowler College of Business, San Diego State University, 5500 Campanile Drive, San Diego, CA 92182, drno@sdsu.edu

ABSTRACT

This case follows PriceSmart, the largest membership "warehouse club" operation in Central America, South America, and the Caribbean. Attracted by the high rate of remittances to El Salvador, the company is investigating whether to address this as a business opportunity. If so, how might this opportunity be operationalized?

CASE

PriceSmart, Inc. operates membership club stores in Latin America, the Caribbean, and Asia, selling food and consumer goods in warehouse-style stores. Members pay between $20 and $35 to shop at PriceSmart stores, which offer merchandise at reduced prices. The company also licenses 11 stores in China. PriceSmart is the largest membership "warehouse club" operation in Central America, South America, and the Caribbean. The company serves over one million members and is considering a new business operational model to leverage remittance opportunities. El Salvador would serve as PriceSmart's test market for refining this business model, given the high remittance rates between Salvadorans in the United States and El Salvador. Currently, Salvadorans in the United States can join PriceSmart as members and make purchases for friends and family in the U.S. and in El Salvador. In addition, they can shop using PriceSmart's online platform to purchase non-perishable products for their family or friends in El Salvador, that can then be picked up locally at a PriceSmart in El Salvador the following day. The company is now considering a new business model that could expand this operation to non-members.

PriceSmart, Inc

PriceSmart, founded in 1996, is headquartered in San Diego, California. It currently operates 29 warehouse club stores in twelve countries and one U.S. territory, with a primary concentration in Central America. The warehouse club concept was developed by Sol Price and his son Robert Price who, in 1976, founded Price Club, the original "warehouse club store". Price Club was later sold and merged with Costco. Currently, PriceSmart has over one-million member card holders and has a renewal rate of approximately 88 percent. Membership costs an average annual fee of $25 to $30. PriceSmart operates “warehouse clubs” like those of Costco and the Walmart Sam’s Clubs.

To better align with its market demands, the firm focuses on smaller stores in the 50,000 to 80,000 square foot range. Each outlet carries approximately 2,200 SKUs (i.e. products), which is far less than a typical grocery store. Among these SKUs are the following primary product categories: hardlines, groceries and perishables. Similar to other warehouse clubs in in the U.S., PriceSmart generates 15 percent of sales by also offering products on a wholesale basis to restaurants, hotels and bakeries. But the bulk of sales are attributed to individual consumers. PriceSmart is publicly traded on the NASDAQ with total market capitalization of $2.3 billion.

Warehouse club industry and model

Today, the warehouse club industry is dominated by four main players: Costco, Sam’s Club (Wal-Mart), BJ’s, and Meijer, which account for more than 90 percent of the entire industry’s revenue. Although PriceSmart is headquartered in San Diego, it has no store operations in the United States, due to a “non-compete” agreement with Costco upon the acquisition of Price Club. A condition of the sale stipulated that the Price Company (headed by Sol and Robert Price) would agree not to conduct a similar business in the United States. Consequently, all PriceSmart stores are in Latin America, South America or the Caribbean, areas where none of the above industry giants operate.

The warehouse club model is conceptually simple. The “club” store offers membership to individuals for an annual fee. In turn it offers discounted or bulk items to its members. This model can allow discounted pricing based on three primary factors. First, membership fees equate to a fixed source of revenue, a majority of which is a direct profit to the company. It’s estimated that Costco generates most of its profits from selling memberships alone. Second, the stores achieve economies of scale from buying in bulk, allowing prices to be lower. A survey conducted by the Center for the Study of Services estimated that prices for BJ’s, Costco and Sam’s Club were 29 to 33 percent lower than the largest supermarket chains”. Lastly, the club store offers very limited product selection, allowing further efficiencies in terms of product distribution, handling, stocking and merchandising.

Country of El Salvador

El Salvador is the smallest, but most densely populated country in Central America. It is about the size of Massachusetts, located between Guatemala and Honduras, with a population of 6.6 million in 2021, which is down from 7.7 million in 2012. Most Salvadorans (90 percent) are Mestizo (of native Indian heritage). El Salvador’s capital city is San Salvador, the country's financial, cultural, and educational center. San Salvador has a population of 1.8 million, which rises to 2.4 million for the wider metropolitan area. The eastern city of San Miguel is the second most populous city in El Salvador, with 500,000 residents. The third-largest city in El Salvador is Santa Ana, which is becoming an increasingly popular tourist destination and has approximately 375,000 residents.

El Salvador has had a very troubled past. In 1992, a 12-year civil war that cost nearly 75,000 lives ended when the government and leftist rebels signed a treaty that provided for military and political reforms. But many of the reforms were not carried out and the economy has stagnated. In addition, organized crime and the presence of notorious gangs is a serious problem. Consequently, El Salvador's homicide rate is the highest in Latin America. Efforts to understand or deal with this phenomenon have been insufficient. Roughly one-third of its population live below the poverty line. Of El Salvador's 6.6 million inhabitants, half live in urban areas and the other half live in rural areas. Most of the population live on approximately two dollars per day, with about one-third living on one dollar per day. There is considerable discrimination for Salvadoran women from a cultural, economic, and societal perspective. Salvadoran men earn an average of $7,381 annually with women earning $3,350 on average. El Salvador also deals with inequality in the distribution of family income, with the richest 10 percent of the population receiving approximately 22 times more income than the poorest 10 percent. Consequently, many Salvadorans have left their country in hopes of security and economic opportunity and those who remain depend on remittances from family and friends who have emigrated to other countries, primarily those who have migrated to the United States.

Salvadorans in the USA

Salvadorans' migration to the United States started during the Salvadoran Civil War in the 1980s and continued to grow. This migration initially resulted from the temporary protected status (TPS) eligibility granted for those fleeing a series of natural disasters that hit El Salvador. The United States is the prime destination for those emigrating. By 2020 over 3.0 million Salvadorans lived in the United States, a significant increase from the 655,000 that resided in 2000. But the actual number who live in the U.S. may be substantially higher. Most U.S. Salvadorans, approximately 1.1 million, are foreign born Salvadoran immigrants. As this accounts for roughly one sixth of El Salvador's total population, it is not surprising that more than half of all adults in El Salvador have a family member living in the United States. Although El Salvador is a very small country, Salvadorans are the third-largest Hispanic or Latino American group and the sixth largest ethnic group in the United States. The highest concentration of Salvadoran immigrants is in the following states: California (39%), Texas (15%), and New York, Maryland, and Virginia (7-9% each). In 2020, the median age of U.S. Salvadorans was 29 years old. On average this working population earned about $25,000 annually, a median income that is substantially less than the general U.S. population. In addition, English proficiency is prevalent in less than half (45 percent) of Salvadoran immigrants, and the majority (53 percent) of this population 25 years or older did not complete high school.

Remittance behavior

It is a common practice of immigrants in developed countries to send money home. This practice is called "remittance" on which El Salvador is heavily reliant. In 2017 Salvadoran Americans remitted $3.6 billion to their family and relatives in El Salvador. By 2021 this figure had increased to nearly $6.0 billion, roughly comprising about a fifth of GDP, one of the highest ratios in the world, according to the World Bank. The remittances are received by 70% of the population in El Salvador, contributing significantly to the country's economy and helping increase their living standards. The average monthly remittance transfer is about $200, and for the households that receive remittances, that makes up 50% of their total income.

Marketing survey of Salvadorans in Los Angeles

A survey was conducted with 400 Salvadorans in Los Angeles to better understand remittance behavior. It asked how remittances were conducted, to whom the money was sent and how the money was intended to be spent. While this was a small sample, the results demonstrate that a majority (79%) send remittances to their family in El Salvador by using a remittance agency (66 %), which charges a fee of five to ten dollars. Nearly 50% percent send a monthly remittance, and an additional 40 percent send it bi-weekly. The results also demonstrate that the majority (60 %) of respondents send between $100 and $300 each time. Of that money a good proportion (40%) is used for groceries, electronics (38%), basic apparel (9%), furniture (4%), hardware and all other (15%). Respondents indicated that they have access to a computer and internet in the USA (93%), but only a minority have ever shopped online (36%). One issue that was raised by many respondents was lack of control of how the money from the remittance is spent or what is being purchased. Overall, remittance from the United States to El Salvador seems stable and may indeed be growing.

The amigos y familia program proposal

PriceSmart executives were intrigued by the magnitude of remittances sent to El Salvador each year. Would it be possible to capture a portion of that as additional revenue? PriceSmart currently has two stores in El Salvador, one in the capital of San Salvador and one in San Miguel. Currently, the business practice is to encourage creditworthy citizens to join as a member, which allows access to the warehouse. Purchases are "cash and carry" using dollars or credit card. Customers then carry away what they buy. Talking to Salvadorans in the United States has uncovered the fact that they felt as if they had little control over how the money being sent home was being spent.

Executives are now considering a program that they term Amigos y Familia (Friends and Family). It would work by marketing membership (likely at a discount) to Salvadorans in the United States. These members would then use a portion of their remittance to purchase products from PriceSmart (either by telephone or online). Doing so would save them the cost of using a remittance agency. Plus, this would yield greater control over how the remittance money was used. The family member in El Salvador would then visit the warehouse to pick up the items purchased by the member in the United States. For a small fee, PriceSmart could arrange delivery, which was seen as an attractive option, since many families did not own a vehicle.

QUESTIONS

1. Is the possibility of developing a program in response to the significant flow of remittances to El Salvador an attractive opportunity for PriceSmart?
2. What do you see as the positives and negatives for the Amigos y Familia proposal?
3. What would be the best way to market the Amigos y Familia program to Salvadorans in the U.S. and to families in El Salvador?
4. Do you have any questions concerning the research that was conducted?