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Chile

Market Development Reports

Retail Food Sector Report

1999

Prepared by: Richard J. Blabey, Agricultural Counselor
U.S. Embassy

Drafted by: Richard J. Blabey

Report Highlights: Agent/distributors remain the key to developing exports of U.S. consumer-ready foods to Chile. Growth of the supermarket industry slows and competition intensifies.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Santiago [CI9030], Chile

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I. Market Summary

- # Chile's supermarket industry reported sales of $4.5 billion in 1998.
- # Sales growth in 1999 is expected to slow to 2 %, verses 6.5% last year.
- # The market for consumer-ready food products and imports is concentrated in the Santiago metropolitan region, where both population density and higher incomes create 40 % of consumer demand.
- # Chile's competitive food manufacturers supply a wide range of poultry and pork products, dairy products, seafood, processed fruits and vegetables, candies, pasta, powdered beverages, soft drinks, and wine.
- # About 10% - 15% of products sold in supermarkets are imported.
- # Chile imported about $600 million in consumer-ready food products in 1998; the U.S. market share was approximately 7.5%.
- # Supermarkets, i.e. stores with 3 or more check-outs, serve about 55 % of the grocery market and number about 600.
- # Traditional neighborhood mini-markets, beverage stores, vegetable stands, etc. serve about 23 % of the market and number about 90,000.
- # The introduction of hypermarkets and larger supermarkets is reshaping the industry. These stores now account for 20 percent of total sales, offering customers fresh bakery goods, delicatessen items, fresh seafood, coffee bars, prepared salads, pizzas and meat dishes, in addition to fresh, frozen and dry grocery products.
- # Multi-national firms, such as Disco/Ahold and Carrefour, are beginning to invest in Chile. Price competition is fierce. A thinning out of the industry is expected.
- # Warehouse outlets and wholesale clubs have not yet made an appearance.

Advantages	Challenges
Increased travel by Chileans to the United States is introducing them to more American products. The image of U.S. products is generally positive.	Due to Chile's many trade agreements with U.S. competitors in the Western Hemisphere, U.S. products now pay a higher duty, 10 % vs. 0-7 % for competitor products.
The United States has exclusive market access for selected fruits, including apples, table grapes and citrus.	The market for imports of most consumer-ready products is too small to support purchases of full container lots.
Doing business with Chile is straightforward; communications are efficient and low cost; corruption is minimal.	Chile enforces very strict animal and plant quarantine regulations.
Chile's market is too small to justify local production of many niche products.	Food products are cleared by Chilean health authorities on a shipment-by-shipment basis.

II. Road Map for Market Entry

Distribution Channels for Food, Alcoholic Beverages, and Confectionary

		% of Sales
Food	Supermarkets and self service Traditional shops and kiosks (with or without liquor)	69.9 30.1
Alcoholic Beverages	Supermarkets and self service Traditional shops with liquor Bars and restaurants	33.9 51.4 14.7
Confectionary	Supermarkets and self-service Traditional shops (with or without liquor) Beverage stores, kiosks and restaurants	49.2 50.3 0.5

A. Supermarkets, Hypermarkets

Entry Strategy

Exhibit at U.S. trade shows regularly attended by Chilean supermarket buyers, such as the FMI/U.S. Food Export Showcase in Chicago, and follow up contacts. Supermarket chains often buy through U.S. consolidators.
Appoint a local agent/distributor in Chile to:
A) ensure that your products are consistently available in the market.
B) supervise in-store sampling and introduction of products. [Chileans are unlikely to buy a new product unless they have sampled it first.]

Distribution Channels

Chile's food wholesaling and distribution system is relatively simple and direct.

Food manufacturers sell directly to supermarket chains.
Two wholesalers, Adelco and Rabie, have nation-wide distribution.
Some supermarket chains import and wholesale products from their distribution centers.
Local corporate affiliates and agents of foreign manufacturers wholesale products.

Company Profiles

Retailer and Outlet Type	Ownership	Sales ($Mil)	No. Of Outlets	Purchasing Agent Type
D&S: "Lider" hypermarkets, "Ekono" supermarkets, "Almac" convenience stores	Local	1,073	50	Direct, Agent, Importer
Santa Isabel: "Santa Isabel" super-markets and "Stock" hypermarkets	Dutch	575	65	Direct, Agent, Importer
Unimarc: "Unimarc" and "MultiAhorro" supermarkets	Local	346	35	Direct, Agent, Importer
Jumbo: "Jumbo" hypermarkets	Local	309	3	Direct, Broker, Agent, Importer
Carrefour	French	N/A	1 (2 more are under constr.)	Direct, Agent, Importer

Fierce competition in the retail sector is driving consumer prices lower and narrowing profit margins.

Major chains are opening new stores in working-class neighborhoods of Santiago to expand market share and increase sales volume.
Retailers use large purchase volumes to leverage lower wholesale prices and extended payment terms from manufacturers.
Retailers are expanding use of private label brands.

Cultural change is creating demand for consumer-ready products.

The entry of women into the labor market is increasing the purchasing power of families and leaving less time at home for preparing meals. From 1990 until 1995, for every 100 new jobs created, 41 were occupied by women. Today, women make up a third of Chile's work force.
Many in the growing middle class cannot afford full-time household help to buy, cook and prepare meals.

Consumption of prepared foods is growing rapidly.

Local manufacturers are preparing convenience foods, such as ready-made pizzas, Italian dishes, Chilean-style frozen casseroles, and sandwiches. By 1997, sales of each of the four or five leading companies in the convenience food sector totaled about $500,000 per month. This figure is projected to increase to $2 million per month in 1999.

B. Convenience Stores, Gas Marts, Kiosks

Convenience stores, gas marts and kiosks sell limited quantities of imported candy and snack foods. In general, they do not import, but purchase from local wholesalers/distributors.

The average gas mart has an area of 100 - 150 m^2 and sells around $600,000 annually.
Gas mart profit margins are reportedly about 10% on sales, about double that of supermarkets.

Entry Strategy

Appoint a local agent/distributor in Chile to ensure that your products are consistently available in the market.

Company Profiles

Retailer Name	Ownership	No. of Outlets	Locations
Tiger Market	Exxon	50	Esso stations in Santiago Region
Select Market	Shell	24	Shell stations in Santiago Region
ampm (gas mart)	YPF (Argentina)	N/A	YPF stations

C. Traditional Markets, Small Independent Grocery Stores and Wet Markets

These stores offer extremely limited opportunity for sales of imported food products from the United States. We do not recommend a marketing strategy aimed at these outlets.

III. Competition, Consumer-ready Foods

The U.S. market share of imports - about 7.5 % - is small due to the inability of U.S. products to compete effectively in the meat and tropical products sectors, which account for 49 % of Chile's consumer-ready food imports.
Recent increases in imports from the United States reflect growth in markets for dairy products, fresh fruits and vegetables, pet foods, snack foods, and beer.
Chile's open economy, political stability, and abundant agricultural resources have promoted investment in the food industry. Multi-nationals, like Nestle, Unilever, and Evercrisp (Pepsico) have processing plants in Chile.
Among the sectors that have expanded rapidly during the past decade are fruit, poultry, pork and dairy processing, pasta manufacturing and production of varietal wines and snack foods.
Argentina dominates the market for imported beef because of its proximity and ability to supply inexpensive beef in compliance with Chile's unique grading and labeling standards.
The New Zealand Dairy Board supplies most imported dairy products due to its control of Soprole, Chile's leading dairy processor. Soprole's market share of long-life milk sales is 50 %, yogurt 55 %, butter 36 % and cheese 18%.
Because of Chile's association with MERCOSUR, customs duties on most food products

imported from Argentina, Brazil, Paraguay and Uruguay will be phased out soon after the turn of the century. Chile is importing more products from Argentina reflecting the investment of multi-national food companies in that country.

IV. Best Product Prospects

A. Products in the market, which have good sales potential, include:

- Salted snacks, nuts, cookies, and confectionery items.
- Red apples, grapes and citrus in Chile's off-season.
- Breakfast cereal for adults or cereals offering nutritional benefits.
- Frozen potatoes.
- Niche market food preparations, such as salad dressings.
- Dog and cat food, other than dry, bagged dog food.
- Beer.

A number of sales opportunities are due to the fact that local food manufacturers are not interested in producing for low volume niche markets. In other cases, manufacturers are limited by the poor quality of locally available raw materials for processing.

B. Products not present in significant quantities, but which have good sales potential, include:

- Fresh Christmas trees: Chile has forest protection laws which prohibit the cutting down of trees for use as Christmas decorations.
- 100% juice products (other than apple, orange and stone fruit juices): Most juice is low quality, supplies are inconsistent, and brands are weak.
- Frozen bread products: Chileans eat French-style rolls for breakfast and enjoy sweet desserts. Therefore, coffee cakes and other breakfast breads should find a market.

C. Products not present because they face significant barriers include:

- U.S. beef cuts: The cost of complying with Chile's unique beef grading and labeling requirements prices U.S. beef cuts out of the market.
- Fresh and frozen poultry: Severe salmonella testing requirements effectively discourage imports of fresh and frozen poultry.
- Off-season fresh fruits and vegetables: Government quarantine regulations and/or high prices serve to restrict imports.
- Wines: U.S. products cannot compete because of high price and lack of consumer awareness.

V. Post Contact and Further Information

American Embassy Santiago, Foreign Agricultural Service

Mailing Address: Office of Agricultural Affairs, Unit 4118, APO AA 34033-4118.
Phone: 56-2-330-3704
Fax: 56-2-330-3203
Email: usfas@rdc.cl

For further information, check the "Agricultural Affairs" home page on the U.S. Embassy Santiago web site (www.usembassy.cl). Then look under:

Chile's Food Sanitation Regulations.

Decree #977 of August 6, 1996: Covers labeling, packaging, additives, contaminants, microbiological criteria, irradiated, dietetic, infant, and frozen foods and specific product requirements, including those pertaining to non-alcoholic beverages. (Spanish and unofficial English versions of Decree # 977 are on the site).

Trade Services and Commercial Credit Guarantee Programs / Market Guides.

The Market for Consumer-Ready and Processed Food Products in Chile 1998, GAIN Report CI8034, November 10, 1998.

Procedures for Import Clearance of Food Products by Chilean Health Authorities, GAIN Report CI9028, June 16, 1999.

Duties and Taxes Affecting Agricultural Imports, GAIN Report CI8035, November 25, 1998.

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Agricultural Production and Trade Statistics, GAIN Report CI9002, January 8, 1999.