

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Chile

### Retail Foods

#### Annual

**Post:**

Santiago

**Approved By:**

Rachel Bickford,  
Agricultural Attaché

**Prepared By:**

Richard Hartley,  
Agricultural Assistant

**Report Highlights:**

The Chilean supermarket industry is constantly looking for new products to satisfy upscale consumer demand. According to interviews with supermarkets and suppliers, among the best prospects are snack foods, including high energy nutritional snacks for sports, fruit juices, cat and dog food, sweeteners, diet or light snacks and candies and cereals.

## **Executive Summary:**

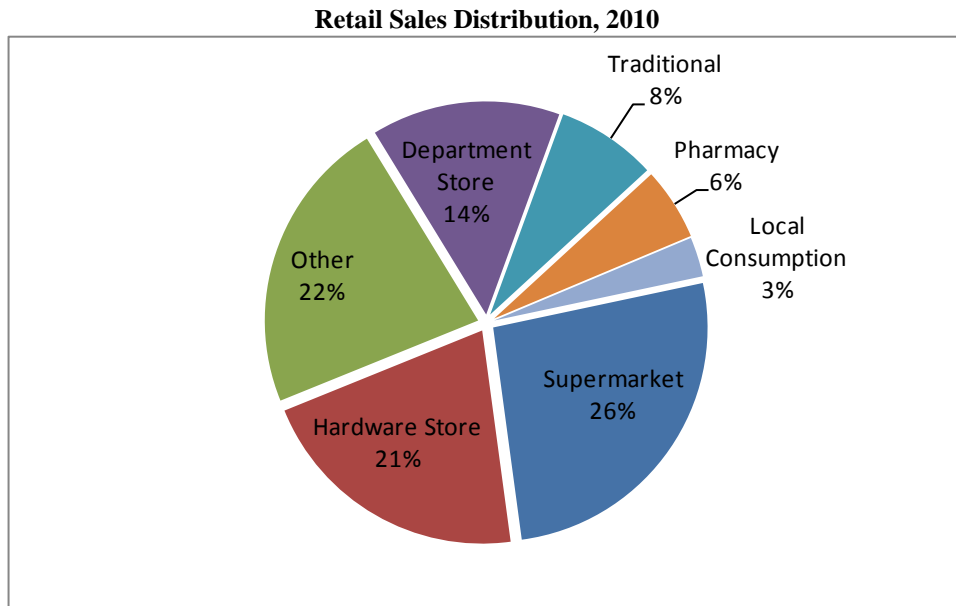
### **Section I. Market Summary**

- In 2010, retail sales remained stable representing 22% of Chile's GDP. In total, retail sales reached US\$45.5 billion, with retail food capturing 26.2% or US\$ 13.5 billion. This is an 8.4% growth from 2009.
- Despite the 2010 recession, Chile's GDP grew 5.2%. GDP is expected to grow between 4% and 6% in 2012. Higher consumer spending power, well developed physical infrastructure and a business-friendly regulatory environment are key factors behind this forecasted growth.
- Consumer spending per capita is set to increase from US\$8,685 in 2009 to US\$11,183 by 2014.
- Chileans have a "Mediterranean diet", with staple foods such as bread, rice, pasta, pork, chicken, legumes, fruit and vegetables, seafood and dairy products.
- 3 main supermarket chains account for nearly 90% of sales.
- There has been a 12.5% increase in the number of supermarkets in 2011 (one new store opening every 3 days).
- The market for consumer-ready food products and imports is concentrated in Santiago, where higher incomes and the city's population density command almost half of the country's consumer demand. Supermarkets serve about 60% of the grocery market.
- Convenience stores, gas marts and kiosks sell limited quantities of imported candy and snack foods. These stores do not generally import directly, but rather purchase from local wholesalers/distributors.
- In the last eight years, Chile has increased its agricultural exports by 149%. Chile's unique and diverse climate allow the country to produce a wide variety of agricultural products with a high level of food purity, and Chile has become a very important player in certain agricultural sectors:
  - Chile is the number 1 exporter in the southern hemisphere for apples, peaches, nectarines, blueberries, raisins, nuts, prunes, and almonds.
  - Chile is the number 2 world exporter of plums.
  - Chile is the number 2 world exporter of kiwis and salmon.
- Favorable credit conditions and the easy access to store credit cards have contributed to an improved retail demand in recent years.
- Chileans spend on average around 20% of their household income on food, drinks and tobacco. In per capita terms, Chile is the second greatest consumer of bread in the world after Germany,

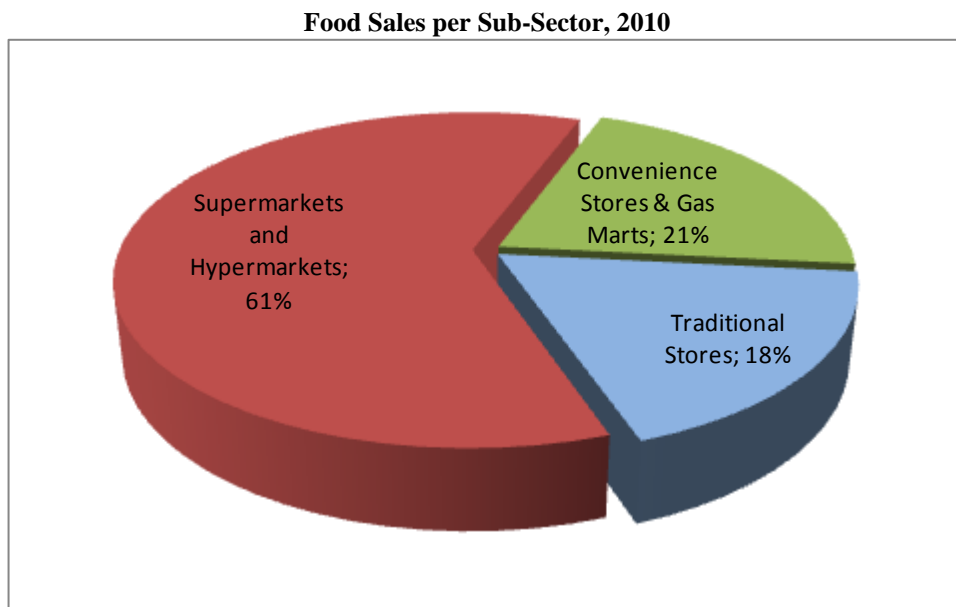
the third greatest consumer of tea, and an important consumer of pasta, rice, seafood, carbonated beverages and beer.

## Retail Food Sales

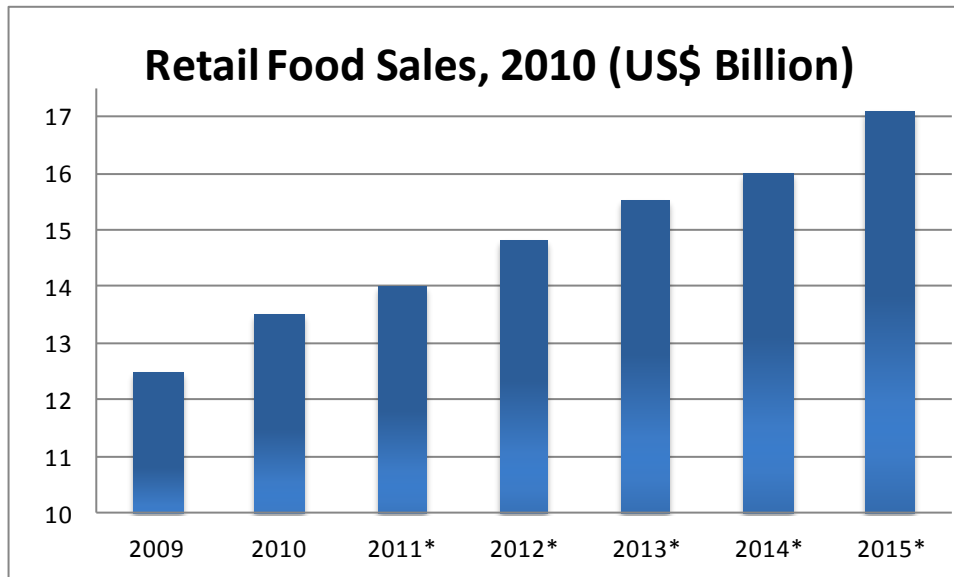
- The supermarket industry represents 26% of the total sales of the retail market
- The retail food sector reached US\$ 13.5 billion in 2010



Source: AC Nielsen 2010



Source: AC Nielsen 2010

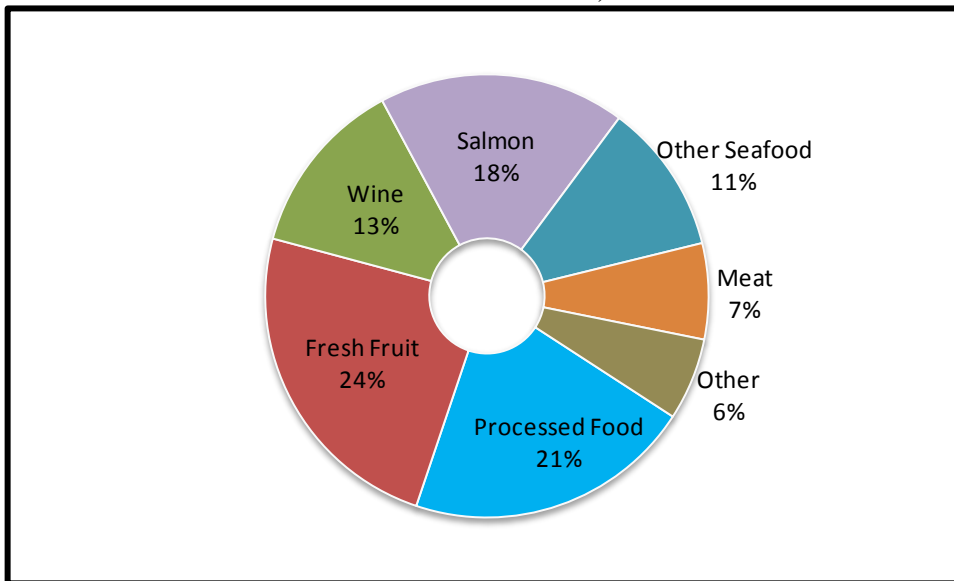


Source: AC Nielsen 2010

## Imports and Local Production

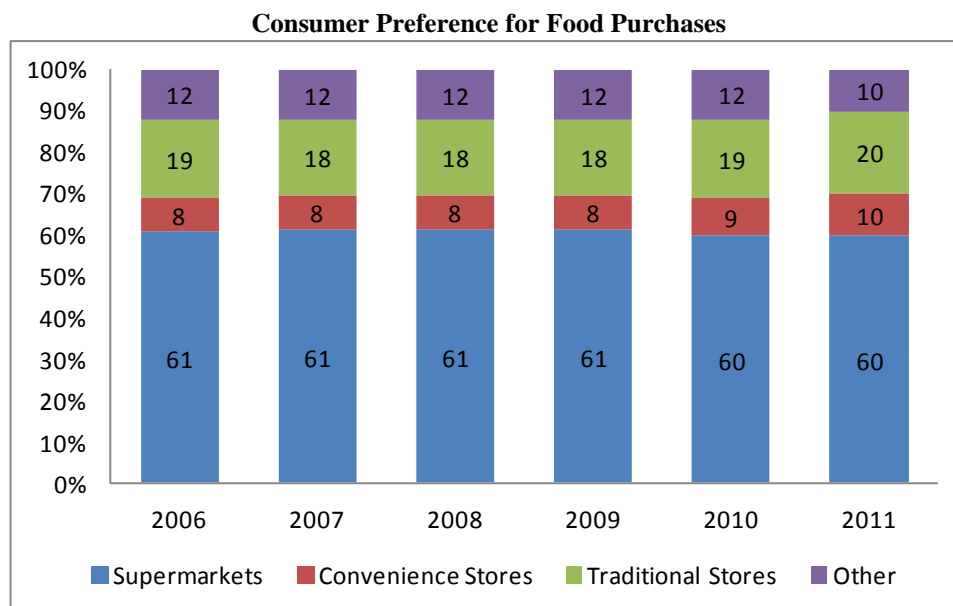
- For the first quarter of 2009 Chile had imported US\$ 1.2 billion of food, drink and tobacco. This represents a 20% decrease compared to the same period of 2008.
- For the same period Chile exported US\$ 3.8 billion of food, drinks, and tobacco. This is a slight decrease of 0.9% compared to the same period in 2008.

**Chilean Food Production, 2010**



Source: Chile Alimentos

## Main Sub Sectors



Source: AC Nielsen

### Number and type of food and beverages retail outlets

Year	2010	2011
<b>Supermarkets</b>	1,102	1,157
<b>Convenience Stores and Gas Marts</b>	803	915
<b>Traditional Stores, Liquor Stores and Kiosks</b>	99,787	100,286
<b>Restaurants and Bars</b>	16,944	17,807
<b>Total</b>	118,636	120,165

Source: Corporate Profiles

## Supermarkets & Hypermarkets

The number of supermarkets and hypermarkets increased 9.3% in 2011, totaling 1,157. In comparison, traditional stores increased .05% and convenience stores grew by 14%. Supermarket sales have increased 6.6% in the first half of 2011, and are expected to have a total increase of 7% by the end of the year.

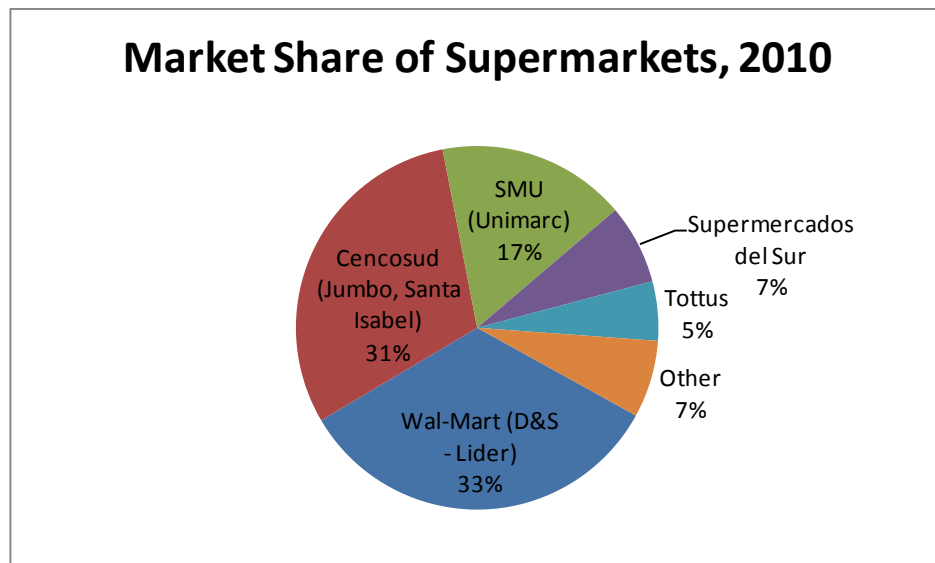
Supermarkets are clearly the most important channel representing 61% of retail food sales, despite only representing 1% of sales outlets. Supermarket sales are strongest in the Santiago Metropolitan Region reaching 43.3% of total supermarket sales in Chile. Valparaíso registered the next highest volume of 10.5%, and the Bio-Bio Region was third with 9.8%.

The supermarket industry is steadily growing, despite the economic downturn in 2010. The Chilean Association of Supermarkets (ASACH) predicts a 4% growth for 2012. Supermarkets in Chile have around a 65% level of market penetration compared to 85-90% for supermarkets in more developed markets.

The most significant development over the last two years has been the kind of supermarket which has been opening. The latest trend is to open small to medium-size supermarkets of between 400 m2 to 1,000 m2.

Another development in the market in 2011 was the announcement that SMU and Supermercados del Sur proposed a merger. Once the merger is in full effect, three supermarket chains will account for nearly 90% of food sales in Chile – one of the highest concentration rates in the region.

In addition to groceries, supermarkets often include flower shops, bakeries, extensive wine cellars and large dairy, meat, fish and fresh produce departments. Hypermarkets add a wide range of non-food products and services as well. Hypermarkets stores have up to 13,000sqm of floor space, so they can offer customers a wider variety of products and services at lower prices. This format is increasing and now making up to 35 per cent of total supermarket sales. The larger chains use the option of importing as a means to negotiate lower prices from domestic suppliers.



Source: Asach

## Company Profiles

Retail Name	Ownership	Number of Outlets	Sales (US\$ Million)	Locations
D&S / Walmart (Lider, Ekono)	U.S.	277	\$ 4,636	Nationwide
Cencosud (Jumbo & Santa Isabel)	Local	170	\$ 3,240	Nationwide
SMU (Unimarc, Supermercados del Sur)	Local	500+	\$ 3,200	Nationwide
Tottus	Local	40	\$ 1,266	Santiago and Regions II, V-VII

### D&S/Wal Mart ([www.dys.cl](http://www.dys.cl))

Chile's largest supermarket chain has 33% of the market. To improve on the low profit margins offered by most food and drink items, D&S is moving further into sales of non-food lines like household goods and financial services.

Its alliance with the Chilean bank Banco del Estado offers clients a range of financial service products across its store network. Its Presto credit card accounts for over 20% of total sales, and interest revenue contributes to overall profits. This trend is in line with the rest of the retail industry in Latin America - with financial services operations accounting for an increasing share of revenues.

Wal Mart acquired D&S stock in 2008. Since then, Wal-Mart has introduced several private label brands which make the market highly price competitive.

### Cencosud ([www.cencosud.cl](http://www.cencosud.cl))

Cencosud is one of the most important Chilean retail holdings, and in fact, among the most important in Latin America. They have hypermarkets, supermarkets, home improvement stores, shopping centers, department stores, credit cards and insurance business. Cencosud has two supermarket/hypermarket brands, Jumbo and Santa Isabel, which together account for 31% of the market share.

Jumbo, Chile's third largest supermarket chain in number of locations (second in sales) has 28 stores in Chile.

Jumbo's strategy is focused on the quality of its products and services. It is the first supermarket worldwide in implementing the international norms (BRC, IFS) and HACCP (Hazard Analysis and Critical Control Points).

Cencosud is actively expanding into other South American countries including Brazil, Peru, Argentina, and Colombia.

Santa Isabel has the second largest number of supermarkets in Chile (ranking third in sales), with 138 stores in the country, offering a wide variety of grocery products as well as its own private-label Cinco Continentes brand. Santa Isabel's strategy focuses on offering the lowest prices.

## SMU / Unimarc ([www.unimarc.cl](http://www.unimarc.cl))

In October 2011, Unimarc merged with Supermercados del Sur making SMU the third largest holder of retail foods share in Chile. They currently have 17% of the market.

## Tottus ([www.falabella.cl](http://www.falabella.cl))

This supermarket is owned by the Falabella Group, another dominant Chilean-owned retailing conglomerate that ranks among the largest in Latin America, and has a 5% market share in Chile.

Tottus has been present in the supermarket sector since 2004, and has grown with Falabella's purchase of the San Francisco supermarket chain. Falabella is also expanding its operations to other Latin American countries including Argentina, Peru, and Colombia.

### **Regional Supermarket Sales Index September 2011**

Average base 2005=100

Region	Index	Variation %		
		Monthly	12 months	Acum
General Index	182.9	5.2	7.9	7.2
Arica	188.4	-0.4	6.9	8.4
Tarapacá	159.6	4.1	16.5	7.4
Antofagasta	205.6	4.0	9.9	9.8
Atacama	225.5	5.9	9.9	10.6
Coquimbo	191.4	10.3	11.6	7.6
Valparaíso	216.7	6.1	3.9	8.6
Metropolitana	175.7	4.7	7.5	8.5
O'Higgins	177.6	5.9	12.1	10.0
Maule	190.2	4.2	7.7	9.8
Biobío	184.0	6.0	8.5	11.4
La Araucanía	187.0	9.6	8.0	7.4
Los Lagos	173.6	6.3	5.0	1.5
Los Ríos	178.2	7.6	8.1	5.2
Aisén	137.2	3.3	0.6	-1.0
Magallanes y Antártica	152.6	0.6	2.8	3.2

Source: INE (National Statistics Institute)

## **Convenience Stores**

The number of convenience stores and gas marts has grown consistently over the past decade, representing in 2011 around 10% of the retail food sector sales.

Convenience stores are small (3,300-10,700 sq. ft) and are typically located in high-traffic residential and commercial zones. They have a small quantity of select items, targeting a consumer with little time in need of specific products. Snacks, beverages, candy, milk, bread, and fruit are common items found in this segment.

The biggest convenience stores chains are Big John and OK Market, primarily located in Santiago. OK



Market is owned by Salcobrand. They have long hours and an important variety of products, like bread, sodas, fruits, confectionaries, wine and liquors. Liquor sales represent 19% of total revenue.

In 2007, D&S entered the convenience store market with their own store chain, under the Ekono brand, which has an average floor space of 3,700 sq. ft.

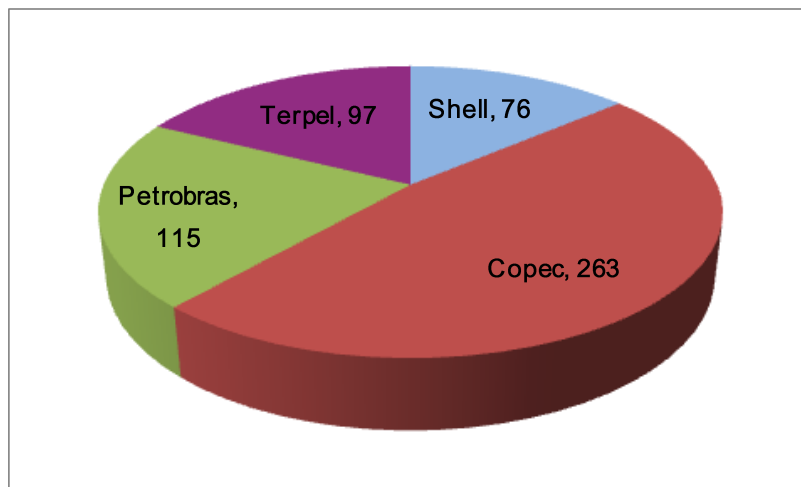
## **Gas Marts**

The gas station convenience store concept is an ever growing market in Chile. At the end of 2011 there were 551 minimarkets of this type -- this figure representing a 26% growth in the market in four years.

Copec is the market leader with 263 stores (48% of the market) followed by the Brazilian state-run Petrobras with 115 (21%). Petrobras entered the market in 2008 by acquiring ExxonMobil's stations in Chile. Colombian company Terpel is the third largest with 97 stores (17%), and then Shell with 76 stores (14%). The most popular products in these gas marts are soft drinks, juices, and ice creams.

Effective May 31, 2011, Shell Group in Chile transferred their businesses to Quiñenco S.A., one of Chile's largest business conglomerates. Quiñenco is the controlling entity of a number of leading industrial and financial services companies in diverse sectors of the Chilean economy.

### **Number of Gas Mart Stores by Company**



## **Traditional Markets**

Although this category represents 98% of all retail food channel stores, its share of sales is less than 20%. These outlets tend to offer an array of items and profit from their convenient locations. Most of these outlets have minimal imported food stock.

## **Trends in Distribution Channels**

The market continues to consolidate through mergers, leaving a wide gap in size and capacity between the leading food retailers and the smaller ones.

Artisanal production of bakery is popular in Chile; hence, 80% of total bakery sales are concentrated in traditional bakeries. Of this 80%, approximately 43% is sold through bakery distribution companies and 37% in stores. The other 20% is sold at supermarket chains.

With the trend over the last three years leaning towards offering as many products and services as possible in the same location, there is an increase in strip malls and neighborhood commercial centers located in strategic corners with ample parking and easy street access.

Convenience stores have experienced a transformation: previously they were based on the minimarket concept, but now most of them are associated with important pharmacy chains to expand their target group.

## **Other Trends**

- Santiago is the most valuable consumer target for high-end products because the majority of the country's population is there, as well as the higher incomes.
- About 10-15% of products sold in supermarkets are imported, but this segment has grown by 85% over the last five years. The U.S.-Chile FTA prompted new interest in U.S. products and opened new opportunities for previously prohibited products.
- Obesity is a major concern in Chile, affecting 20% of the population. In order to fight obesity the government is introducing measures to regulate the food industry. Such measures include:
  - Maximum sugar levels
  - Maximum levels of fats and salt
  - Clear labeling
  - Restricted advertising of certain products
- Certain processed foods continue to see strong growth as more people join the work force and eat out of home. Promising products include convenience and fast foods, out-of-home foods, and healthy foods.
- Spicy food is not popular in Chile, especially among the upper class.
- Chilean consumers declare that the most valued benefits from specific items are health, quality, convenience and security.
- The organic food market has been steadily growing over the past several years. The market, which was worth US\$200,000 in 2003 and US\$7.4 million in 2008, is expected to grow to

US\$53 million by 2013. The high price of organic goods is the main obstacle preventing some from consuming these alternative food products.

- Warehouse outlets and wholesale clubs have not yet made an appearance.

## **Sector Strengths and Weaknesses**

<b>Advantages</b>	<b>Challenges</b>
Rising consumer spending and adoption of foreign food types favor new types of inputs.	Price sensitivity is becoming stronger because of the rise in local prices in food and other products.
Chile has the highest GDP per capita in South America.	Domestic fresh fruit and vegetable markets are abundant.
The U.S.-Chile FTA, which went into force in 2004, is making U.S. products more competitive.	Quality of food ingredients from around the world has become very similar, abiding by U.S. and European standards.
U.S. food inputs are known for their quality and low health concerns, meeting respected FDA & USDA standards.	The typical consumer is not immediately attracted to foreign products, as local producers typically provide well priced quality options.
The relatively weak dollar compared to the Chilean peso will make imports from the U.S. more competitive.	Artisanal products have a significant share of the market. Chileans tend to prefer fresh foods, which are perceived as higher quality.
The country's population of 17.1 million is very centralized, with over 40% living in the Santiago Metropolitan Region.	Chile is a predominantly exporting nation, having abundant agricultural resources; only 15-20% of products sold in supermarkets are imported.
Chile has one of the highest percentages of non-traditional store sales in Latin America, which allows suppliers to target large retail chains for larger volume sales.	Local consumers often have strong brand loyalty, making it difficult for new U.S. companies to enter the market. Can be a future benefit once the company gains popularity.
Foreign companies may conduct business in Chile on the same basis as local companies and enjoy guaranteed access to foreign exchange for repatriation of capital and profits.	Prices for U.S. products may still be higher than local products or imports from nearby countries, even after the FTA. FOB prices for U.S. inputs tend to be at least 10% higher than local prices for equivalent quality.

## **Section II. Road Map for Market Entry**

- Large corporations increasingly prefer to import directly from foreign suppliers, while smaller retailers are often not able to purchase whole containers or prefer that a distributor manages logistics and their inventory. Eventually, large sales volumes would justify establishing a local subsidiary to guarantee customer service and quality levels.
- All edible products must be approved by the Chilean health authorities and receive a registration number and open sales permit before being put on the market.
- Distribution trade is very receptive to U.S. products as they are a guarantee of quality and good packaging. When possible, buyers try to avoid local middlemen and buy direct in order to keep profit margins and remain competitive.
- U.S. food products are respected for their high quality levels, but prices are generally uncompetitive. To compete in Chile, U.S. producers need to consider lower profit margins.

Specialty, value-added products have a better chance of success than more basic products, which are often sourced locally.

- In order to enter the market, products must meet certain criteria:
  - Food must be labeled
  - Information must be in Spanish
  - Information must include country of origin, name, ingredients, additives, weight/volume, packaging/manufacture date, expiration date, details of the person responsible for the sale.
  - Livestock and vegetation require food certificates from the country of origin

### **Keys to Successfully Enter and Develop the Chilean Market**

To be successful in the Chilean market, it is important to have a strong proactive attitude, long-term commitment to the market, marketing and promotion programs, good customer service, flexibility with minimum order quantities, and well crafted terms of payment. High U.S. market shares are linked mainly to a product's uniqueness (e.g. peanut butter and baked beans) or special characteristics (above-average quality with respect to health, service and delivery capabilities).

Below are some recommendations to consider when entering the Chilean market:

- Make an effort to develop and nurture strong relationships with good distributors and large retailers in order to become a trusted business partner
- In order to remain competitive, be aware of price sensitivity because of the rise in local prices in food and other products
- Good image and packaging of imported products is expected and will position the product in the medium to high end of the market
- For new and different products, consider in-store tastings as part of a launch plan to increase the chances of market entry

### **Market Structure**

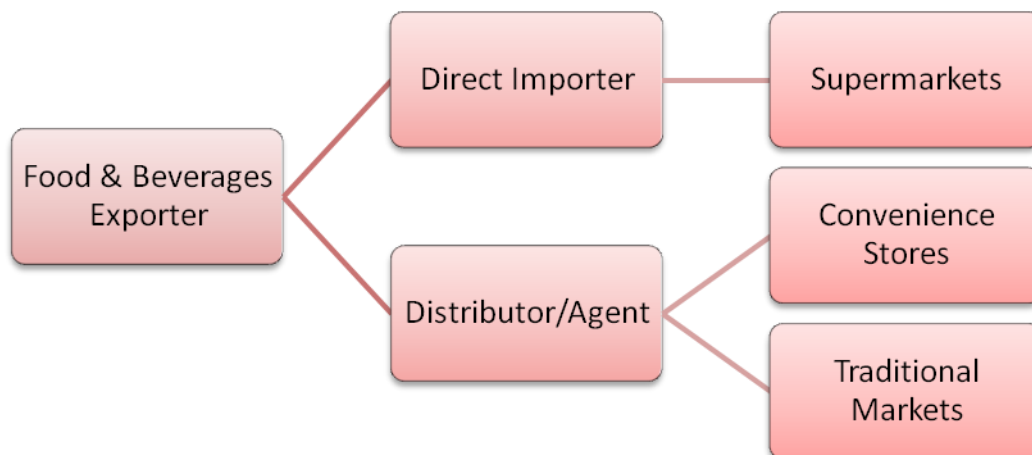
Food sales generally go to supermarkets, followed by traditional retailers and to a small extent to institutions (HRI food services). Institutional sales are often handled as a separate business by the food companies.

Small neighborhood food stores continue to grow in number but nevertheless they struggle to compete with the large supermarket chains which are constantly gaining a higher market share as smaller independent stores cannot match the efficiencies and location advantages of market-leading hypermarkets.

If sales volumes are not high, direct imports will generally not be of interest to Chilean buyers because the costs and effort required to get an edible product approved are disproportionately high. In this case,

it is more reasonable to have a local representative/distributor handle the import process, health approval, marketing, promotion, selling and stocking.

### Distribution Channel Flow Diagram for Imported Foods & Beverages



### Section III. Competition

Chile is one of the world’s top leaders in free trade having international trade agreements with 58 countries, representing 85 percent of the world’s GDP and 80 percent of the world’s population.

The U.S. - Chile FTA came into effect on January 1<sup>st</sup>, 2004. It immediately eliminated tariffs on almost 90% of U.S. products imported into Chile and more than 95% of Chilean exports to the United States. Tariffs on all products will be eliminated by 2016. Bilateral trade in all goods grew by 33% that same year, reaching nearly US\$ 8 billion, while U.S. exports of consumer-oriented food products to Chile grew by 54%.

Although the FTA allows immediate duty-free entry into Chile for the majority of U.S. goods, Chile’s two free trade zones (Iquique and Punta Arenas) still offer some advantages. Modern facilities for packaging, manufacturing, and exporting exist in each zone. Imports entering and remaining in the Free Zones only pay value-added tax (VAT) when brought into Chile. The extreme locations of each zone (north and south) diminish their effectiveness as a source of distribution to Santiago.

U.S. and Chile tariff schedules can be found at [www.ustr.gov/new/fta/Chile/text/](http://www.ustr.gov/new/fta/Chile/text/), “Section 3. National Treatment and Market Access for Goods.”

### Comparative Chilean Food and Agricultural Product Imports

Product	Total Imports 2010 (US\$)	U.S. Imports 2010 (US\$)	U.S. Imports % Change '10/'09	U.S. % Market Share	Main Competitors (% of market share)
Beef	\$707,802,655	\$5,573,821	361.97%	0.79%	Paraguay (61%), Brazil (15%), Argentina (13%)
Dairy Products	\$43,497,682	\$17,044,768	177.39%	39.19%	U.S. (39%), Argentina (36%), New Zealand (5%)
Fish & Seafood	\$107,648,196	\$664,884	-10.47%	0.62%	Ecuador (36%), Thailand (16%), Colombia (15%)

Fresh Fruit	\$64,271,018	\$6,826,168	273.72%	10.62%	Ecuador (89%), U.S. (3%), Peru (3%)
Fresh Vegetables	\$7,921,179	\$201,342	-9.04%	2.54%	China (63%), Peru (25%), Argentina (9%)
Fruit & Vegetable Juices	\$29,174,868	\$1,284,167	23.53%	4.40%	Argentina (38%), Brazil (36%), South Africa (8%)
Pet Food	\$67,749,514	\$5,039,850	2.05%	7.44%	Argentina (87%), U.S. (7%), Brazil (3%)
Pork	\$37,925,090	\$10,022,477	272.3%	26.43%	Canada (46%), U.S. (26%), Brazil (21%)
Poultry	\$105,825,639	\$19,410,261	1700.4%	18.34%	Argentina (60%), Brazil (21%), U.S. (18%)
Processed Fruits & Vegetables	\$130,373,663	\$14,727,675	47.73%	11.30%	Argentina (19%), Belgium (12%), U.S. (11%)
Rice	\$63,993,287	\$810,636	181.24%	1.27%	Argentina (66%), Vietnam (14%), Uruguay (7%)
Snack Foods	\$96,445,795	\$8,447,767	29.20%	8.76%	Argentina (31%), Colombia (12%), U.S. (9%)
Tea	\$48,728,206	\$384,150	94.32%	0.79%	Sri Lanka (42%), Argentina (32%), Brazil (8%)
Wine & Beer	\$58,710,666	\$11,619,076	209.94%	19.79%	Argentina (31%), Mexico (31%), U.S. (20%)

## Section IV. Best Product Prospects

### Category A: Products Present in the Market That Have Good Sales Potential

Functional foods are showing good growth potential as increasingly health-conscious consumers seek new products. The dairy sector is one of the most important players in this respect with pro-biotic products becoming more popular.

Pork has become the country's second preferred meat after chicken. Chicken consumption is over 25 kg per capita annually, pork 20 kg, and beef 19.9 kg.

Major products in this category are:

- Baby Formulas
- Baking food and Mixes
- Breads & Cookies
- Candy (gummies, chewing gum, etc...)
- Cereal
- Dairy Products (cheese, yoghurt, milk varieties)
- Fruit Juice
- Healthy Food Products and Energy Supplements
- Hot Dogs
- Ice Cream
- Olive Oil & Cooking Oil
- Pastas
- Pet Food
- Pork, Turkey and Chicken
- Rum, Vodka, Beer, and Whisky
- Snacks
- Soft Drinks, Energy Drinks

- Sweeteners
- Tomato Sauces
- Tuna

### **Category B: Products Not Present in Significant Quantities**

Products in this category are newly developed and recently introduced products with health certificates being finalized. Also, there are products, like beef, that are being sought because of recent changes in supply and demand. Major products in this category are:

- Beef
- Cocoa powder
- Ethnic foods
- Organic products
- Processed meat products
- Ready-to eat meals/prepared plates
- Spices, sauces and mayonnaise

### **Category C: Products Not Present in the Market Because They Face Significant Barriers**

There are very few products in this category. The U.S. and Chile are engaged in technical discussions regarding several of the products below:

- Honey and honey derived products (American Broth Disease)
- Fresh pork (self-imposed barrier)
- Genetically modified (GMO) products without registered events in Chile
- All poultry except chicken and turkey (i.e. duck)

## **Section V. Post Contact and Further Information**

### **American Embassy Santiago, Office of Agricultural Affairs**

Address: Office of Agricultural Affairs  
3460 Santiago Place  
Washington D.C., 20521-3460

Tel.: (56-2) 330-3704

Fax: (56-2) 330-3203

E-mail: [agsantiago@fas.usda.gov](mailto:agsantiago@fas.usda.gov)

Web Page: <http://www.fas.usda.gov>

For further information, check the "Food and Agriculture" home page on the U.S. Embassy Santiago web site ([www.usdachile.cl](http://www.usdachile.cl))

**SEREMI de Salud (Chile's Food Sanitation Regulations)**

Address: Avenida Bulnes 194, Santiago

Tel: (56-2) 399-2435

Web Page: [www.seremisaludrm.cl](http://www.seremisaludrm.cl)

**Chilean Supermarket Association (ASACH)**

Address: Av. Vitacura 2771, Las Condes, Santiago

Tel.: (56-2) 236-5150

Fax: (56-2) 236-5133

Web Page: [www.asach.com](http://www.asach.com)

E-Mail: [asach@entelchile.net](mailto:asach@entelchile.net)