Country Market Profile: Chile

Focus Economics reported on March 17 2020 that growth prospects for Chile in 2020 have deteriorated since the wake of the protests last October. While fiscal concessions should uphold private consumption, capital spending is likely to decline on uncertainties surrounding the drafting of the new constitution. Meanwhile, exports should rebound, although stifled global demand due to the coronavirus pandemic is set to take its toll. FocusEconomics panelists see Gross Domestic Product (GDP) expanding 1.3% in 2020, which is down 0.2 percentage points from February 2020’s forecast, and then growth of 2.4% in 2021.

Euromonitor reports that key downside risks in Chile stem from the uncertain external environment, mainly related to rising protectionism, a sharp tightening of global financial conditions, and a weaker-than-expected growth in Chile’s main trading partners. There is a danger that disruptions in the supply of energy could push up production costs and slow the pace of growth. Officials have launched a string of energy projects, which will be vital to the mining sector but still face environmental and judicial obstacles.

Chile has a number of free trade agreements (FTAs) with countries such as Canada, Mexico, South Korea, the USA and the EU. In 2013, Chile, Colombia, Mexico and Peru signed an agreement (known as the Pacific Alliance) which removes tariffs on 90% of their merchandise trade. Chile is a member of the new 11-member Comprehensive and Progressive agreement for Trans-Pacific Partnership (CPTPP) which was formally created in March 2018. The new CPTPP excludes the US.

The rate of population growth in Chile is slowing. In 2020, population reached 18.1 million (CIA World Factbook Est.), up from 15.3 million in 2000. Meanwhile, population is ageing. The median age has risen to 35.5 years in 2020, 6.8 years more than the figure for 2000. Birth rates in Chile are lower than the regional average. In 2030, 16.5% of the population will be over 65 years, up from 11.4% in 2018. Such a demographic change could soon reduce the country’s rate of potential growth.

USDA’s Office of Agricultural Affairs (OAA) hereinafter referred to as “Post” reports that the United States is Chile’s third largest supplier of agricultural and related products, after Argentina and Brazil. Top U.S. products exported to Chile are beer, pork, feeds & fodders, wheat, poultry, soybean meal, dairy products, and beef. Chile is the 2nd largest market for U.S. consumer-oriented products in South America. This category of products represented 71% of all U.S. agricultural and related exports to Chile in 2019 reaching US$755.4 million, an 18% increase over that of 2018.

Chile is also the 2nd largest market in South America for U.S. processed food product exports, totaling US$525.3 million, up 13% in 2019, and an all-time record high. Top processed food exports to Chile in 2019 included:

- Beer and Wine
- Processed/Prepared Dairy Products
• Food Preparations
• Prepared/Preserved Meats
• Condiments and Sauces
• Non-Alcoholic Beverages
• Distilled Spirits And Other Alcoholic Beverages
• Chocolate and Confectionery

Chile has both opportunities and challenges for U.S. food exporters.

Advantages:

• Clear rules and transparent regulations encourage fair competition.
• The purchasing power of Chile’s middle and upper-middle income consumers continues to rise.
• The U.S.-Chile free trade agreement of 2015 ensures duty free entry of all U.S. agricultural Products.
• Chile’s largest retailers have operations in other Latin American countries, making it a gateway to other Latin American markets.
• American brands are regarded as high quality. Many well-known brands are already popular in the market.
• 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.
• U.S. food inputs are known for their high quality and meeting respected FDA & USDA standards.
• Demand for premium processed foods and beverages that provide convenience and health benefits continue to increase
• Demand for healthier foods ingredients has increased due to food processors needing to adhere to nutritional limits set by the 2016 nutritional labeling law.

Challenges:

• Chile has Free Trade Agreements with 64 economies worldwide, so they do not depend on imports from a specific region. Imports that offer the best price and quality worldwide are the most attractive.
• Chilean customers are used to competitive prices due to the openness of the economy.
• Chileans value face-to-face meetings and strong personal relationships, which is not always a priority in U.S. business practices.
• Lack of awareness of Chilean consumers and importers on the variety and quality of U.S. products, which may require more promotion. Specifically, premium beef cuts, high quality cheeses, dairy products, and healthy food products that do not exist in Chile and need to be brought to the attention of consumers.
Retail Food Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Chile had been estimated to reach US$14.3 billion in 2019. That represents a growth rate of 31.4% or US$3.4 billion since 2015. The forecast for growth in this market is also promising. By the year 2024, the retail sales in the packaged food market in Chile is expected to reach US$17.9 billion, a growth rate of nearly 28.5%, or nearly US$4.8 billion. High growth products in the forecast include:

- Ready Meals
- Processed Meat and Seafood
- Processed Fruit and Vegetables
- Sauces, Dressings and Condiments
- Baby food
- Breakfast cereal
- Savory Snacks
- Confectionery

Chile has been one of Latin America’s fastest-growing economies in the last decade enabling the country to have a modern and dynamic food retail industry. Chile’s food retail sales reached $17.2 billion in 2018, a 5% over 2017. The Chilean retail sector is composed of a mix of large supermarkets, mid-sized grocery stores, convenience stores, gas station markets, and thousands of smaller independent neighborhood mom-and-pop shops. On-line food sales show some dynamic, but it is still a niche market. The main food and beverage distribution channels are supermarkets with a market share of about 62%.

Chile has a modern and dynamic food retail industry. According to the National Institute of Statistics (INE), in 2018, 1,371 stores, including hypermarkets, supermarkets and other small food retail stores with a minimum of three checkouts composed the Chilean food retail sector and 50% of them are in the Metropolitan region. Chile is becoming increasingly urbanized, not only in the Metropolitan region (Santiago), but also in other cities. The retail food industry has been adjusting to this trend especially grocery retailing that has been adopting a convenience store or convenience shop model through convenience store chains, gas station markets, and smaller supermarkets. Supermarkets and hypermarkets still have the largest market share for Chile’s food retail sales accounting for nearly 50% of the total value (US$34 billion).

Euromonitor reports that Supermarkets saw slower value growth in 2019 because of the intense competitive landscape where channel cannibalization has become the norm, driven by e-commerce changing consumers’ approach to modern grocery retailers. Oversaturation by grocery retailers is commonly seen in bigger urbanized Chilean cities leaving no potential space to increase the number of outlets. The increasing land value in main cities has led main players to focus their growth strategies on decentralized areas such as Tarapacá, Valparaíso and Coquimbo, which are expected to grow significantly according to the National Statistics Institute’s population projections through to 2035.
This format has great business opportunities in both small urbanized cities and rural towns where the product mix offer could properly supply local demand.

As part of its commercial strategy which commenced in 2017, Wal-Mart Chile has completed the remodeling of all discounter outlets under the Ekono brand to maximize selling space with a more profitable chain, Express de Lider. As land and property value is increasing in every urbanized Chilean city, outlet growth has been a problem for most players as there are no strategic places available for new stores. Given this fact, the multinational company has successfully assessed the issue by making the most out of the existing selling space by allocating Express de Lider in more residential locations, investing in a higher margin per transaction as average tickets are higher than previously at Ekono.

Chilean Cencosud SA operates different retail formats, from department stores to supermarkets, where it stands out as the second biggest player in value terms with Santa Isabel. The Santa Isabel brand remains renowned for the close local approach it takes with its consumers, targeting the middle class who prefer to shop daily or weekly near their homes. Besides price-based commercial offers, Santa Isabel offers a Cencosud loyalty points system through the Nectar Card which allows customers to accumulate points on every retailing brand of the company.

According to Euromonitor, even though convenience stores charge considerably higher prices than other modern grocery retailers, the channel offers significant growth opportunities. By strategically locating the stores in both residential neighborhoods and commercial hubs, convenience stores can meet consumer needs in the right place at the right time by offering selective promotions at a competitive price throughout the day. As a fast-paced lifestyle has become a trend, consumers are willing to spend more for breakfast or lunch and even grocery shop at closer stores due to the time-saving experience. OXXO has developed its commercial strategy effectively by constantly offering product deals at lower prices, ensuring a higher number of transactions and rapidly gaining value share by completing the remodeling of Big John stores.

Empresa Nacional de Energía Enex SA surprised the convenience stores competition by launching a stand-alone format store under its Upa! brand. According to its brand strategy, the stores aim to supply demand in business hubs with breakfast and lunch meal deals. Under a “foodvenience” concept, the new Upa! stores offer a fresh and healthy product mix in a unique store layout with comfortable seating areas and a different product display inspired by market stalls. They also offer a co-working space with a free Wi-Fi service, differentiating Upa! as a convenience store that invites the consumer to stay and enjoy quality fresh products in a comfortable environment. Opening hours are also different for these stores as they meet business hours, only from Monday to Friday.

FEMSA Comercio SA de CV, which brought its brands to Chile during 2016, was the second most important player in convenience stores in 2019. Through the conversion of Big John stores, OXXO rapidly gained value share during 2017-2019. Through its price strategy, FEMSA Comercio stands out as the fastest growing company within convenience stores.
Best Product Prospects:
Chilean demand for healthy food products continues to grow as people increase health awareness and income rises. U.S. products are perceived to be of high quality, safe, unique and reliable and consumers are increasingly searching for gourmet and differentiated products, providing opportunities for U.S. exporters. In regards to this trend the best product prospects are beer/craft beer and spirits, beef, poultry and pork (chilled/fresh), dairy (cheeses), sauces, mixes condiments and seasonings, fruit juices, prepared and frozen meals, snack foods and healthy food products.

Food Service Sector Highlights:
Post reports that the Hotel, Restaurant and Institutional Food Service (HRI) food service sector shows good potential for sales. The size of the middle class in Chile continues to expand along with average income. New lifestyle trends, such as more women in the workplace and healthier lifestyles, are leading to rapid growth in consumer food service, a trend that is expected to continue over the next few years. Hotels, currently the biggest investment sector of the HRI market, are expected to continue to thrive and this will provide export opportunities for U.S. exporters. New chains and international restaurants open each year.

According to Euromonitor data, the growth of the food service sector is expected to increase 25.3% for the period from 2016 to 2022 (value in constant prices). Among the products that will set the next trends in food, stand out quality, ready-to-eat food, and premium perceived natural food and beverage products. This niche market is driven by consumers seeking convenience and health-conscious millennials entering the labor market and has resulted in an increase of fast casual restaurants offering healthier premium food.

Chile offers excellent business opportunities for U.S. food and beverage exports in the HRI sector, especially for those U.S. companies seeking to initiate or increase their exports to Chile outside supermarket chains and retail stores. The 2018 HRI figures show that this is a mature sector with a contribution to the GDP of over US$6 billion, or 8.1% higher than 2017. In recent years, there has been sustained growth in the number of establishments dedicated to food and beverage preparation and supply services. The Chilean Internal Revenue Service (SII) identified 48,798 establishments of the HRI sector in their last census, which represent 4% of the total number of companies registered throughout Chile. These establishments show a stable sales growth, reaching US$5.6 billion in 2018.

Chile is a very centralized country around its capital city, Santiago, and this has led to a higher concentration of restaurants and cafés within business areas. According to SII, Santiago accounts 60% share of total sales of consumer foodservice. There is a high
concentration of large food companies and a very fragmented segment of small establishments in the HRI channel.

The players in the HRI sector demand diversified and more elaborated products, which becomes an opportunity for products of foreign origin, many of which are characterized by having a high value-added, such as food products from the United States. U.S. food and beverage products are highly appreciated by Chilean consumers and professionals in the HRI sector, as they are associated with a high level of quality. Promotional activities are highly recommended, especially promotions and demonstrations seminars for chefs, restaurant owners, food journalists, and other professionals in the sector.

Chile’s foodservice sector has been growing as a result of economy's stability, the increase in the purchasing power of the population, travel, retail outlets/channels, and greatest insertion of women in the labor markets as well as the government investment project for tourism. According to Euromonitor the growth of the foodservice sector is expected to increase 25.3% for the period from 2016 to 2022 (value in constant prices). Among the products that will set the next trends in food, stand out quality, ready-to-eat food and premium perceived natural food and beverage products. This niche market is driven by consumers seeking convenience and health-conscious millennials entering the labor market and has resulted in an increase of fast casual restaurants offering healthier premium food.

According to the study "La Experiencia de Comer (The Experience of Eating)”, published by GfK Adimark Chile (market research company) in January 2019, 23% of the population eats in a restaurant at least once a month, while 11% eat out once a week. When it comes to taste, Chilean and Chinese gastronomies are imposed with 37% and 31% of consumers’ preferences, respectively, with sandwich shops in third place with 27% including hamburgers. In the last five years, the HRI industry has faced different changes, such as the boom of artisan bakeries, the arrival of large groups that operate different restaurants chains (American and Peruvian), and gourmet food courts in different shopping malls.

The hotel sector in Chile consists of traditional hotels, as well as short-term rentals, and other types of accommodation such as hostels or Airbnb. According to Euromonitor, sales for the hotel sector grew 16% from 2015 to 2020, and for short-term rentals, a growth of 61.7% are forecasted over the same period. Online bookings increased and are predicted to grow by 79.2% in the same period, accompanied by a decrease in offline sales by 20%. This development reflects consumers’ desire and demand for quick information and the possibility to compare prices.

Despite the increase in hotel offerings in Chile, the chains will continue investing in the local market, especially in the medium and luxury segments. 21 new hotels in these categories will be developed in Chile in the period 2017-2022. Euromonitor highlighted three reasons that have transformed Chile into an ideal scenario for new hotel projects: the positive projections in tourists’ arrivals, the importance of Chile as a consolidated business center in the region, and the fact that the country has one of the highest average
daily rates in the region, which reaches US$83 per room in these segments. In addition to these factors, the market does not have a saturated hotel offer like other countries in the region. Eco-friendly hotels and boutique hotels are increasing their presence in the market. Moreover, the hotel industry identifies that enotourism (wine tourism) is a growing niche, which offers activities surrounding Chilean wine industry. Restaurants are divided in full-service restaurants (independent and chained) and limited-service restaurants (independent and chained). Consumer food service outlets are expected grow annually by 2.2% between 2016 and 2021. Foodservices related to traveling are expected to increase annually by 11.1% between 2016 and 2021, which reflects the growth of the tourism industry in Chile, followed by foodservice through retail with 7.2% CAGR (Compound Annual Growth Rate).

Independent restaurants do not only hold more outlets than chain restaurants, but also grew faster in terms of new openings per year. Moreover, tourism is a strong contributor to growth of consumer foodservices. Despite a general slowdown in economic activity, food service growth is strong and consumers have not changed the frequency in which they eat out, however they are spending less amount of money on each occasion and opting for cheaper options. Food delivery services increased in importance, not only in the fast food sector, but also for healthier options. Delivery services provide a solution to the increasingly busy lifestyles that Chileans are leading as well as to the lack of motivation and knowledge required to prepare healthy meals. Furthermore, coffee shops show strong growth as well as juice and smoothie bars.

Best Product Prospects:

Post reports that Chile offers excellent opportunities for U.S. food exports in the HRI sector. The best prospects for U.S. food products reside in supplying high-end hotels and restaurants (casual dining and family-style restaurants) along with coffee shops and fast food restaurant chains. Preferred products include:

- Diet & light soft drinks, ready to drink tea, ready to drink coffee and fruit juices
- Craft beer and distilled spirits
- Beef – portion-controlled cuts, Poultry and poultry products and Pork (chilled/fresh)
- Dairy products
- Sauces, mixed condiments, and seasonings, especially those in retail big format
- Healthier snacks (with dried fruits and seeds like chia and others)
- Convenient food such as pre-prepared, pre-portioned, value-added products (healthier and more premium than fast food)
- Elaborated and pre-processed baked goods and confectionary
**Food Processing Sector Highlights:**

Post reports that Chile has a modern and developed food processing industry that represents 25% of Chile’s economy, and is forecast to grow to more than 35% by 2030. The food and beverage industry is expected to grow by 6.6% annually. Chile is among the top ten agricultural exporters in the world. Chile’s main agricultural exports are wine, fresh fruit, dairy, meat and fishery products. Healthy foods, gourmet foods, prepared foods and ready-to-eat meals show huge potential for growth in the Chilean market. Food processing companies are constantly looking for innovative ingredients for production of healthier foods especially those for consumers with food intolerances such as lactose and gluten-free products.

Nearly half of the industry’s output is consumed domestically while the rest is exported to the rest of the world. According to Chilean Central Bank data, food exports in 2018 totaled US$18.1 billion, and grew by 10.6% in value over 2017. Chile is considered a “business center” for the distribution and production of processed foods, with more than one hundred multinationals operating in the country. In addition, Chile enjoys a robust commercial network thanks to its 26 trade agreements with 64 countries.

Chilean consumers have an increasing concern for health related issues while the food processing industry continues to adapt to the nutritional labeling law, higher labor costs, and sophisticated consumers, all of which present challenges, but also opportunities for U.S. high value-added products and ingredients such as natural additives, preservatives, thickeners and sweeteners. Food processing companies are constantly looking for innovative ingredients for production of healthier foods especially those for consumers with food intolerances such as lactose and gluten-free products.

Thanks to Chile’s reputable and stable investment environment, multinational food and beverage companies have invested in Chile for years. Nestlé, for example, opened its manufacturing plant in Chile in 1936 and has become an important employer with 3,000 employees, and an economic actor in the Latin American region. PepsiCo built its first plant in Chile in 1982 and has opened 25 distribution centers, employing more than 2,000 people. In terms of value sales, Chile’s package food value in 2018 reached nearly US$10 billion. The largest category was dairy products, which reached US$4.5 billion followed by the baked goods category valued at US$3.5 billion.

**Best Product Prospects:**

Post reports that the best prospects for U.S. exporters in the Chilean food processing sector include natural flavors, sweeteners and natural alternatives, pork meat (ex.: for Chilean sausage industry), non-fat dry milk, coconut and oats, protein concentrate, odoriferous substances, alternative grains (ex.: quinoa, lentils, and chickpeas), super foods (chia, flaxseeds, nutritional yeast, etc.), almonds, whey and lactose, others: additives, preservatives, thickeners, oats, vegetable fats and oils, mixed condiments, starches and enzymes.