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GAIN Report #CI0021

## **Chile**

### **HRI Food Service Sector**

#### **Hotel, Restaurant, Institutional Food Service**

## **2000**

Approved by:

**Richard J. Blabey**

**U.S. Embassy, Santiago**

Prepared by:

Richard J. Blabey

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#### **Report Highlights:**

**Chile's HRI food service sector offers opportunities for U.S. processed food exports.**

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## SECTION I. MARKET SUMMARY

The hotel, restaurant and institutional (HRI) sector offers growing opportunities for selling processed products. Economic growth during the past 15 years has resulted in changed eating habits and a greater awareness of foreign cuisine. Eating and drinking well has become a part of Chilean society, a conversation topic, and a subject of newspaper and magazine articles.

Neither the government nor the restaurant industry report gross sales figures. A rough analysis of trade statistics suggests that the HRI food service sector consumes over \$100 million in imported food products annually, the largest single item, by value, being Argentine beef.

Institutional food service companies do about \$300 million in business annually. Mines and educational institutions are the leaders in offering meal benefits. Reportedly, 80 percent of businesses provide their employees in-house food services or vouchers to eat at local restaurants and sandwich shops.

A recent survey indicated that over 70 % of the residents of Santiago eat one or more meals outside the home every day. Lunch, the main meal of the day for most Chileans, is most often consumed outside the home. As the economy grows and urban streets become more congested, even fewer people will go home for lunch.

Higher wages for kitchen employees and stricter sanitation standards will encourage businesses catering to the luncheon trade to look for more pre-prepared or partially prepared products and products offering greater uniformity.

Middle- and upper-class Chileans dine outside the home with friends and family about twice a month. Santiago has more than 1,000 restaurants catering to social dining, of which about 100 pass muster by food critics.

Demand in the restaurant sector is highly correlated with economic growth. Due to an economic recession in 1998-1999, restaurant sales fell 12 %, but demand is now recovering. Forecasters expect Chile's economy to grow 6 % this year. As a result, the restaurant industry anticipates growth of 12-18%. Total restaurant sales figures are not available.

Fast food chains continue to spread beyond Santiago and its upper-class suburbs. Sales were flat in 1999 at about \$115 million but should grow in 2000 with the opening of more restaurants and comparable sales increases. Many of the chains are multinationals and tend to import through buying offices in the United States. The local firms buy exclusively from local distributors.

Although Chile's tourist industry grew 5% in 1999 earning revenues of \$1.1 billion, it offers limited opportunity for U.S. products. 65% of the visitors are Argentines who enjoy spending their vacations at Chile's many summer beach resorts, where restaurants often specialize in fresh seafood. Vacationers from North America, on the other hand, are primarily attracted to Chile by its many opportunities for ecotourism. In keeping with this theme, hotels and lodges in the national parks tend to serve locally grown foods in season.

A successful market entry requires a sound marketing plan and investment. Local food

processors, many of whom are affiliates of U.S. and European multinationals, currently supply the market with highly competitive products, especially those in greatest demand.

A survey of the industry reveals that U.S. products benefit from certain advantages in the market and face some significant challenges as well.

<b>Advantages</b>	<b>Challenges</b>
U.S. product standardization, packaging, and sanitation controls are generally superior.	High prices for U.S. products limit market penetration.
Globalization of taste is underway, and the appeal of U.S. culture is growing.	The distance from the market and slow delivery can limit the shelf life of products.
Cultural change, economic growth and the spread of franchising are creating new HRI markets.	Strictly enforced import controls delay customs clearance.
The United States is the sole source for some products.	Lack of continuity in the market weakens potential demand.
U.S. processed products offer more added value and reduce waste.	The cold chain remains underdeveloped.
U.S. brands are well known in a brand-conscious market.	U.S. product labels may be only in English, or they may be poorly translated into Spanish.

## **SECTION II. ROAD MAP FOR MARKET ENTRY**

### **A. ENTRY STRATEGY**

The appropriate strategy for entry into the market depends on:

- ' The type of product or products to be promoted and marketed.
- ' The potential size of the market for the products.
- ' The resources the exporter is willing to commit to market development.

Key factors to consider are:

- ' Only a handful of companies operating in Chile's HRI sector manage their imports directly, and these tend to be multinational fast food franchises with established purchasing organizations.
- ' The HRI sector prefers local products because payment terms more convenient, and smaller quantities may be purchased and delivered more frequently.
- ' Chile's health authorities grant approval to sell imported food products on a shipment-by-shipment basis after sampling and testing products upon arrival.

Therefore, in order to sell to the HRI sector, the exporter needs the services of a local organization to supervise importing, warehousing, marketing, sales and distribution.

This can be done by either:

- ' establishing a local company affiliate in Chile,
- ' appointing an exclusive import agent, or agent/distributor, or by
- ' developing commercial relations with more than one local importer/distributor.

The first option - establishing a company affiliate - is economical only for products in great demand. However, Chilean agents and distributors will still request marketing and promotional support to launch products and maintain contacts with chefs and food buyers. Advertising in Revista Gourmand and Lobby magazines is also recommended by one food service company.

While Chile may still be considered a price-oriented market, customers are beginning to take into account the level of service provided by wholesalers and distributors. This involves establishing excellent communications links with customers and responding rapidly to their urgent purchase orders.

To identify companies that are well suited to handle distribution of products to the hotel, restaurant and institutional markets in Chile, the exporter should:

- ' Visit Santiago: The Office of Agricultural Affairs in the U.S. Embassy can assist by making some appointments and identifying suitable importers/distributors.
- ' Exhibit in the ExpoGourmand food show in Santiago.
- ' Participate in the Southern U.S. Trade Association sales mission to Santiago in August 2000.

## **B. MARKET STRUCTURE**

The distribution system for imported and domestic products is essentially the same. Wholesalers buy from import agents or sometimes import directly, depending on the product. Import agent/distributors sell to other wholesalers or to food service companies and restaurant chains directly.

Changes taking place in the distribution system that could affect imports include:

- ' Construction of newer and larger wholesale distribution centers.
- ' Improvement in the cold chain with the addition of more refrigerated trucks.
- ' Expansion of services nationwide by more wholesalers.

## **C. SUB-SECTOR PROFILES**

### **Restaurant Franchises in Chile**

Company Name	Type	(# Outlets)	Location
Au Bon Pain	Restaurant	12	Santiago, Regions II, IV
Burger King	Fast food	25	Santiago, Regions V, VI
Doggis (hot dogs)	Fast food	65	National
Domino's Pizza	Pizza Delivery	22	National
Kentucky Fried Chicken *	Fast food	37	National
Lomito'n (pork loin sandwich)	Fast food	95	National
McDonald's	Fast food	66	National
Mr. Chips	Fast food	7	Santiago
Pizza Hut *	Pizzeria	27	National
Taco Bell *	Fast food	7	Santiago
Tele Pizza	Pizza Delivery	20	National

\* Franchise affiliates.

In addition to the above, following food franchises (#) have established footholds in Chile: Chuck E Cheese (1), Dunkin Donuts (2), Friday's (1), Fun Time Pizza (1), Ruby Tuesday (1), and Sbarro's (3).

Growth in the number of restaurants belonging to franchise chains has been rapid since their introduction into Chile in the early 1990's. For example, McDonald's has grown from 12 restaurants in 1994 to 66 as of May 2000. Industry executives are reluctant to provide company sales data for security reasons. Franchise restaurant sales during 1999 are estimated to have been approximately \$135 million and should grow 10 percent or more in 2000.

### **Institution Food Service Firms**

Company	Location	Customer Base (sites)	Sales (\$million)
Central de Restaurants	National	Schools, hospitals, industries, offices, construction sites and mines. (200)	70
P&O Alpin - Eurest	National	Mines, industries, hospitals, schools. (50)	45-50
Sabromeals Servicios de Alimentacion	Santiago, Reg. V, VI & VIII.	Schools, offices, industries, government programs. (420)	15
Sodexo Chile	National	Mines, industries, offices, schools, hospitals and clinics, government programs. (600)	140-150

### III. COMPETITION

The HRI sector relies overwhelmingly on domestic sources of supply for poultry, pork, fish, processed meats, dairy products, rice, flour, pasta, fresh potatoes, fresh and frozen vegetables, beverages and pastries. Chile currently imports about \$500 million in consumer-oriented food products annually, of which about \$100 million is purchased by the HRI food service sector. Chile's leading imports in this category are beef, which it imports primarily from Argentina, snack foods, and tropical products, such as fruit, coffee, teas, seasonings, and cocoa products. The United States' share of the HRI market for consumer-oriented imported products is estimated at 5-10%.

The U.S. market share is generally limited to either frozen potatoes or niche products not available locally. These include items required by international fast food franchises which they cannot source locally due to their precise technical specifications and the low volume they require.

Demand for imported seafood, other than frozen shrimp from Ecuador, is minimal due to underdevelopment of the cold chain and ample supplies of fresh fish and shellfish near the coast.

### IV. BEST PRODUCT PROSPECTS

#### A. Products Present in the Market Which Have Good Sales Potential

Item	Major Competitor(s)	Imports (\$ million)	From U.S. (\$ million)
1. Cheese, incl. processed	Domestic, EU, New Zealand	13	2
2. Potatoes, frozen.	Argentina, Canada	9	2
3. Condiments, sauces, syrups and seasonings.	Domestic	5	1
4. Rice	Domestic, Argentina, Thailand	27	1
5. Pizza toppings, incl. meat	Domestic	N/A	0.5

Notes on above table:

- ' Processed American cheese slices used by the fast food industry are not available locally.
- ' U.S. frozen potatoes are subject to a higher import duty than product from Argentina and Canada because the United States lacks a free trade agreement with Chile.
- ' Chile is about 35% self-sufficient in rice.
- ' Pepperoni sausage is not available locally.

#### B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

- ' Appetizers and snacks for restaurants.
- ' Bakery products and mixes.
- ' Dehydrated potato flakes and granules.
- ' Desserts.
- ' Frozen vegetables in new formats.
- ' Gourmet coffees.
- ' Ingredients for Chinese and other Asian dishes.
- ' Precooked, deli meat products, other than ham and turkey.
- ' Portion-controlled products that reduce waste.
- ' Surimi.

#### C. Products Not Present in Significant Quantities Because They Face Significant Barriers

- ' U.S. beef: U.S. product does not satisfy Chile's unique grading and labeling standards.
- ' Frozen chicken: Chile's strict salmonella testing makes imports too risky.
- ' Wine: U.S. wines are not price competitive with local vintages.
- ' Fresh fruits and vegetables: Chile's plant quarantine restrictions limit market access for most products other than California table grapes and citrus, and Washington apples.
- ' Liquors: Chile's discriminatory tax structure favors consumption of locally produced "pisco" as the basic ingredient in cocktails.

#### V. POST CONTACT AND FURTHER INFORMATION

##### Mailing Address:

Office of Agricultural Affairs  
U.S. Embassy Santiago

Unit 4118  
APO AA 34033-4118

Street Address:

Office of Agricultural Affairs  
Embajada EE.UU.  
Andres Bello 2800  
Las Condes  
Santiago, Chile

Phone: 56-2-330-3704

Fax: 56-2-330-3203

Email: AgSantiago@fas.usda.gov, usfas@rdc.cl

Web Sites:

**<http://www.usembassy.cl>**; U.S. Embassy Santiago homepage. First look under "*Food and Agricultural Affairs*," then click on "*Chile's Market*" for research reports, statistics, and contacts in Chile.

**<http://www.fas.usda.gov>**; Foreign Agricultural Service homepage.

Technical Reports:

A Food and Agricultural Import Regulations and Standards (FAIRS) Report for Chile is available [CI 9044] on both the U.S. Embassy web site and the FAS web site.

Chile's Food Sanitation Regulations are available in Spanish (official) and English (unofficial translation) on the U.S. Embassy web site.