

Move Now To Regain Competitive Edge in Chile's Pet Food Market

U.S. pet foods, already considered the best, have gotten more competitive since the U.S.-Chile FTA (Free Trade Agreement) dropped tariffs from 6 percent to zero in January 2004. These products now receive equal treatment with those of other suppliers.

Almost 80 percent of dog and cat foods consumed in Chile are imported from Argentina. Brazilian and U.S. imports make up most of the rest.

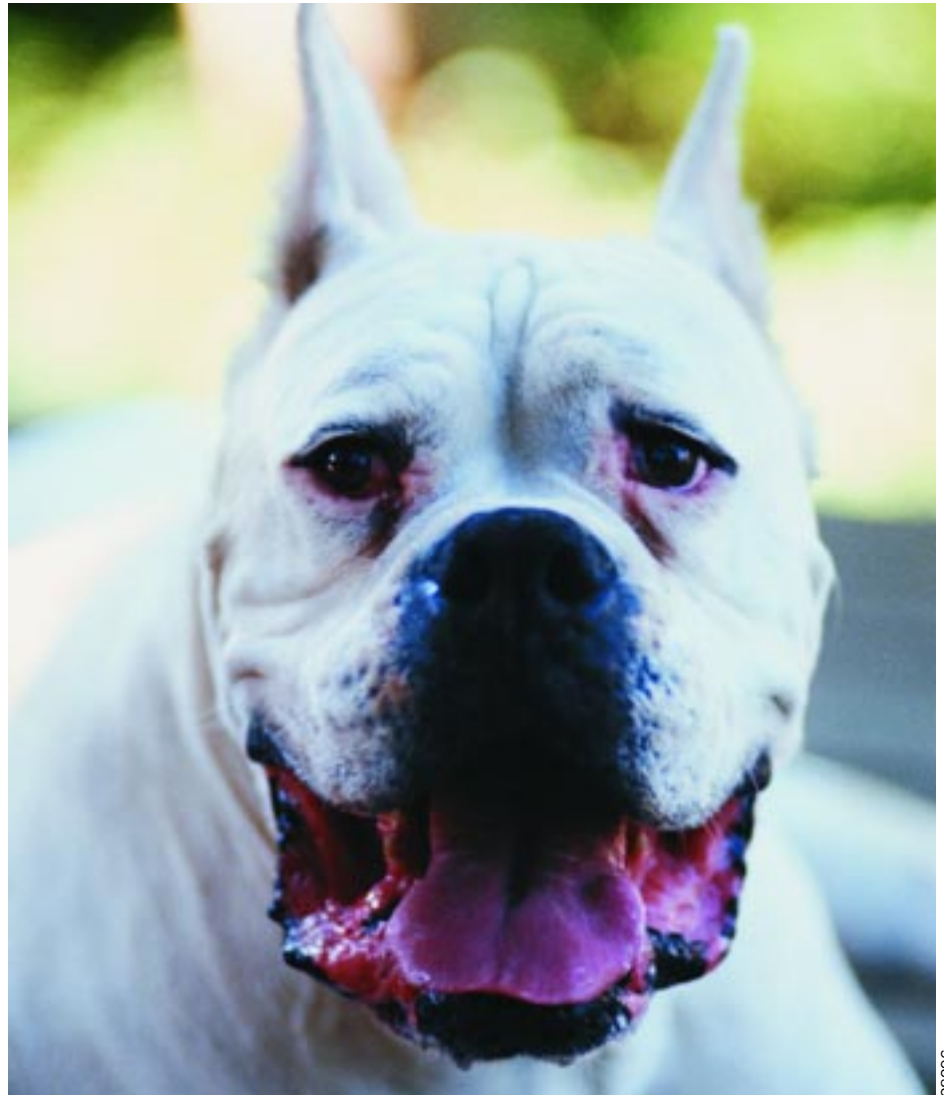
International plants in Argentina, many financed by U.S. investors, have displaced U.S. imports in Chile, and have been upping their competitiveness with improved product quality and packaging.

In calendar 2003, Chilean pet owners bought \$150 million worth of pet foods, of which \$31.7 million, or 56,000 metric tons, was imported. U.S. suppliers sold only \$2.6 million worth to this market in 2003.

About half of Chilean households own pets, with an estimated 2.5-3 million dogs and 1.5 million cats. Two-thirds of the households in Santiago, where 40 percent of Chile's population resides, own pets. Only 30 percent of the households throughout Chile buy pet foods; most serve up a mix of purchased and home-cooked foods.

Dogs have gained the most from increased pet food sales, consuming three-quarters of the pet foods sold. Over 95 percent of purchased foods are dry.

Optimists predict that dog and cat food sales could triple with stronger acceptance of processed, balanced pet foods, instead of home-prepared foods.



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Right Niche Important

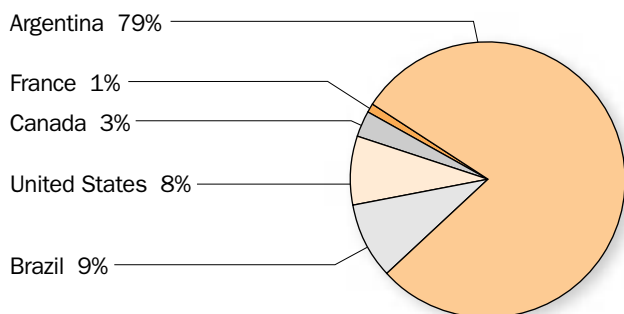
In 2002, international companies Nestlé and Masterfoods Chile (a subsidiary of Mars, Incorporated) imported 80 percent of all pet foods into Chile (mostly from their companies in Argentina) and, with a 60-percent share of the total market, provided the most competition.

They sell their products through their own distributors to pet stores, veterinary

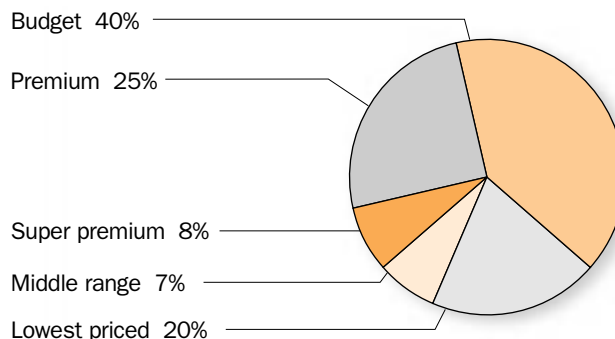
clinics, convenience stores and gasoline stations. Generally, supermarkets purchase directly from the companies.

Local products supply around 30 percent of total sales. Two main manufacturers, Champion S.A. and Nutripro S.A., split a 30-percent market share of local production. They usually sell about one-third of their products directly to supermarkets, 60 percent to distributors and the remainder to pet stores.

In Calendar 2003, Argentina Provided Most of Chile's \$31.7 Million in Pet Food Imports



Budget Pet Foods Headline Sales in the Chilean Marketplace



While U.S. products cannot compete with standard pet foods in this market, there are unsatisfied niches:

- Super premium brands
- Products that fit between super premium and premium pet foods, priced from \$30 to \$50 per 15-kg bag (1 kilogram=2.2046 pounds)
- Special diet supplements

Navigating the Market

U.S. exporters should be aware that there are strict sanitary requirements that must be met in the Chilean market. Sometimes these may limit the type of pet

foods that can enter the country.

Market entry requires a dedicated supplier and a distributor willing to develop strong market entry and pricing strategies and to provide good support. Successful long-term business partnerships depend on good personal relationships. Visiting Chile and meeting with business representatives is important.

Supermarket sales of premium and economy brands have shown the most growth. Super premium products are sold only in pet stores and veterinary clinics. Bulk, generic brand pet foods are sold mostly at public fairs and lower end stores.

Trends and Opportunities

Because of the strong competition, pet food companies are targeting specific niche markets such as those for mature and overweight animals. The new generation of pet owners is more likely to buy these and other specialty products.

Overall markups for imported pet foods range from 150 percent for budget brands to 200 percent for premium brands, up to 250-300 percent for super premium brands. Suppliers will find that money spent on advertising, mostly via TV and veterinary clinics, brings the greatest dividends. n

Weighing the Pluses and Minuses in Chile's Pet Food Market

Advantages	Challenges
U.S. technology is better, and companies more experienced.	Most U.S. products are comparatively more expensive.
"Made in U.S.A." makes positive impact as ingredients are considered of higher quality. New FTA reduces tariff to zero.	Argentine and Brazilian plants are following global standards, increasing product quality.
U.S. product packaging and labeling are seen as superior.	Labor, input and transportation costs in Chile and Argentina are cheaper.
U.S. companies have experience and resources for strong market penetration strategies.	South American factory standards are catching up.
	Reliable distributors capable of brand development strategy, advertising and distribution support are hard to find.

For more information on this market, contact the FAS Office of Agricultural Affairs at the U.S. Embassy, Santiago, Chile. Tel.: (011-56-2) 330-3704; Fax: (011-56-2) 330-3203; E-mail: fas_stgo@rdc.cl

For details, see FAS Report CI4017. To find it on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.

