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**PROYECTO DE CONSULTORÍA: EXPLORACIÓN DEL MERCADO
CHILENO DE PESCADOS Y MARISCOS ENLATADOS PARA LA
POTENCIAL ENTRADA DE UNA EMPRESA CHINA**

**TESIS PARA OPTAR AL GRADO DE
MAGÍSTER EN GESTIÓN PARA LA GLOBALIZACIÓN**

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**RESUMEN DE LA MEMORIA PARA OPTAR AL
TÍTULO DE:** Magíster en Gestión para la Globalización
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La empresa china Qingdao Ocean Garden produce pescados y mariscos enlatados, y busca nuevos mercados para su marca Hyper Harbor y/o para proveer productos no etiquetados para marcas propias. En este contexto, el presente documento es resultado del proyecto de consultoría solicitado por la compañía, realizado de manera remota entre agosto de 2014 y febrero de 2015. Dado que los clientes solicitantes son de origen chino, el proyecto fue realizado en su totalidad en inglés.

La consultoría tuvo como objetivo principal explorar la viabilidad del mercado chileno de productos del mar enlatados, para la potencial entrada de *Ocean Garden* y sus productos. Para ello, se realizó un estudio sobre el mercado y su tamaño potencial, considerando a los principales competidores, posibles clientes, el proceso de venta y su marco regulatorio. Desde el punto de vista metodológico, se recabó información bibliográfica en el marco de un estudio exploratorio, que fue complementada con entrevistas semi-estructuradas a ejecutivos del sector público (Sernapesca) y privado (supermercados). Además, el tamaño de mercado fue definido tomando como medida el volumen de venta de la industria, a través de un enfoque *top-down*. Por requerimientos del cliente se optó por la entrega de un documento compilatorio –el presente- y la realización de reuniones informativas online (videoconferencias y chat).

Así, se realizó una caracterización del mercado, donde se aprecia que el tamaño para ambas opciones de entrada (con la marca Hyper Harbor o productos sin etiquetar) se presenta como atractivo, con valores totales sobre los US\$70 millones. Sin embargo, se encontró que ambos segmentos están saturados, por un lado con más de 100 productos similares entre sí y con jurel San José acaparando la mitad del mercado; y, por otro, con menos de 20 poderosas conserveras chilenas reteniendo el mercado de marcas privadas. Dentro de los clientes, los supermercados Walmart, Cencosud y SMU aparecen como los más atractivos en ambos casos, y una estrategia de captación para uno de ellos y su marca propia podría asegurar mercado para Ocean Garden.

El mercado chileno de pescados y mariscos enlatados fue definido como atractivo y viable, recomendándose la opción de vender productos para marcas blancas; particularmente a SMU por sus atractivas características (tamaño y disposición a adquirir productos chinos). Para ello, se recomendó a la empresa seis pasos previos a seguir para determinar una entrada viable, que van desde verificar que los productos cumplen con las normas de origen solicitadas por la autoridad sanitaria chilena y la preparación de muestras, hasta la proyección financiera considerando la asignación de costos de distribución.

DEDICATORIA

A mi esposo Jaime, mis padres, mi hermana y a Benjamín.
A mi familia completa, a mis antiguos y nuevos amigos.
Sin ustedes, nada de esto hubiese sido posible.

AGRADECIMIENTOS

En primer lugar, a mi familia y amigos, porque sin su apoyo nada hubiese sido igual en esta relevante etapa de mi vida.

En segundo lugar, al Global MBA y todo su equipo, por confiar en mi potencial y explotarlo. Sin la guía de sus administrativos y profesores este proceso no sería realidad. Gracias por el conocimiento y las herramientas entregadas.

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1. INTRODUCTION

1.1. Company description

Qingdao Ocean Garden Imp. & Exp. Co., Ltd. (Ocean Garden) is a company located in Qingdao -one of the biggest port cities of China- in the province of Shandong. It was founded in 2004 under the motto “Honesty, Technology, Quality and Service”, to compete in the global market of canned food, covering more than 100 items which include fish, seafood, fruits and vegetables.

The company sells its products through two ways: on the one hand, it distributes its own brand “Hyper Harbor” in countries such as USA, negotiating directly with supermarkets and convenience stores (distributor); and, in the other hand, under the OEM standard, selling its products to third parties that distribute under their own brands and labels, like the case of Van Camp’s and Great Value (supplier).

Figure 1: Ocean Garden’s logo and main products



Source: Ocean Garden

To cover its global demand, Ocean Garden counts with an owned subsidiary in the main port of China, Rongcheng Shidao Ocean Grand Foods Co. Ltd., a 14 thousand square feet plant where it produces more than 10 thousand metric tons of food every year. Considering all these, the company has presence in countries and areas like North America, Europe, Australia, Middle East and Asia; and today it is looking forward to enter the Chilean market of canned fish and seafood. This intention is motivated by an inner interest of the owners of the company, based on:

- 1) Demand: they believe the Chilean eating habits coincide with the consumption of fish and seafood.
- 2) Opportunities in Latin America: they are already penetrating markets in the area, with exciting early results.

- 3) Expansion needs: the experience and recognition of the company push to the search of new markets.

In order to help the Ocean Garden's executives to define the possibilities to entry the Chilean market of canned fish and seafood, this consulting project will explore and evaluate for them elements such as industry context, market size, competition, potential clients and current regulations, considering the 27 fish/seafood canned products offered by the company, shown in Table 1.

Table 1: Ocean Garden's canned fish and seafood products (alphabetical order)

Product	Type	Weight (gr.)
Baby clams	Boiled	90
		290
		800
Mackerel	in Brine	155
		200
		213
		290
		425
	in Tomato Sauce	155
		200
		213
		290
		425
Oysters	Boiled	225
Pink salmon	in Brine	105
		200
		425
		1810
Sardines	in Brine	425
	in Oil	105
		120
	in Tomato Sauce	155
		213
		425
	in Tomato Sauce with Chili	155
		213
		425

Source: Ocean Garden / Own elaboration

2. MARKET

2.1. Industry at glance

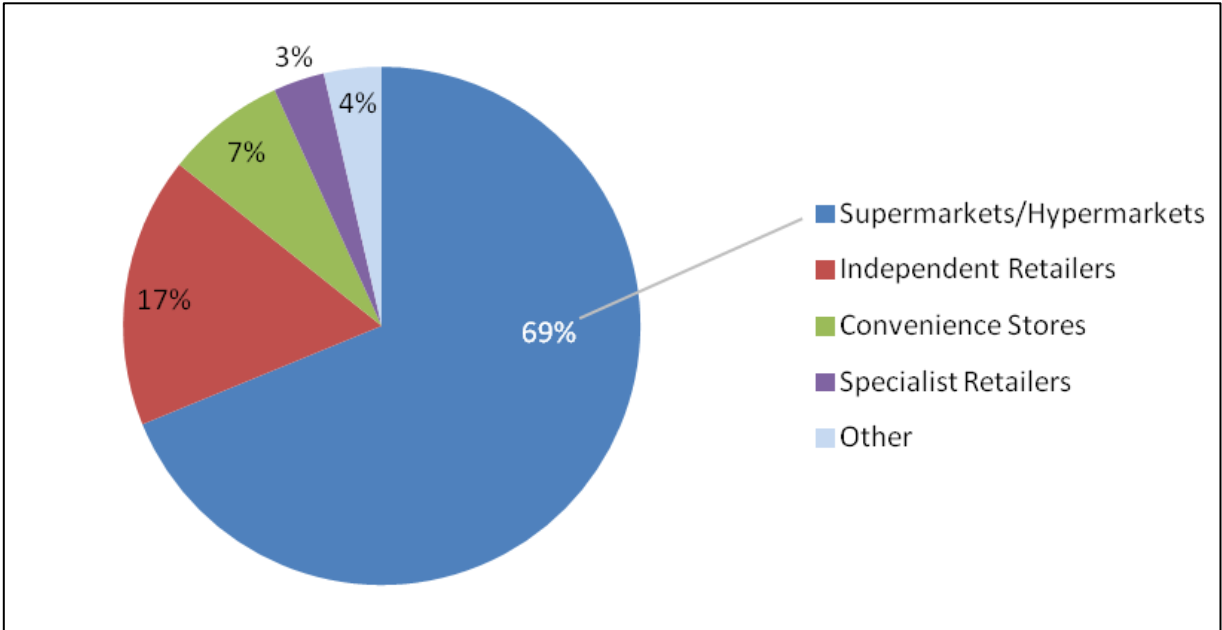
2.1.1. The global market of canned fish and seafood

The canned foods market consist of the retail sales of canned desserts, canned fish/seafood & meat products, canned fruit, canned pasta & noodles, canned ready meals and canned vegetables. In 2013, this market grew by 2.7% compared with the previous year, reaching a global value of US\$71,307.5 billion; and it is projected by Marketline that it will reach about US\$82,400 billion in 2018.

Europe accounts for 51.3% of the global canned food market value, and Americas accounts for 28.7%. Del Monte Foods Company (USA) is the leading player in the world, generating a 3.6% share of the market's value, followed by Bolton Group (Netherlands) with a 3.5%.

The leading distribution channel is supermarkets/hypermarkets, which account for 68.8% share of the total market value (MARKETLINE, 2013).

Figure 2: Global canned food market distribution (% share, by value, 2013)



Source: Marketline

2.1.2. Canned fish and seafood

According to data provided by Marketline, the fish/seafood was the largest segment among the global market of canned food in 2013, with total revenues of US\$25.3 billion that represented 35.5% of the market's total value.

Table 2: Global canned food market category segmentation (\$billion, 2013)

Category	2013	%
Canned fish/seafood	25,319.6	35.5%
Canned vegetables	19,274.6	27.0%
Canned meat products	10,680.6	15.0%
Canned fruit	6,552.4	9.2%
Canned ready meats	5,623.9	7.9%
Canned pasta & noodles and desserts	3,856.5	5.4%
TOTAL	71,307.6	100%

Source: Marketline

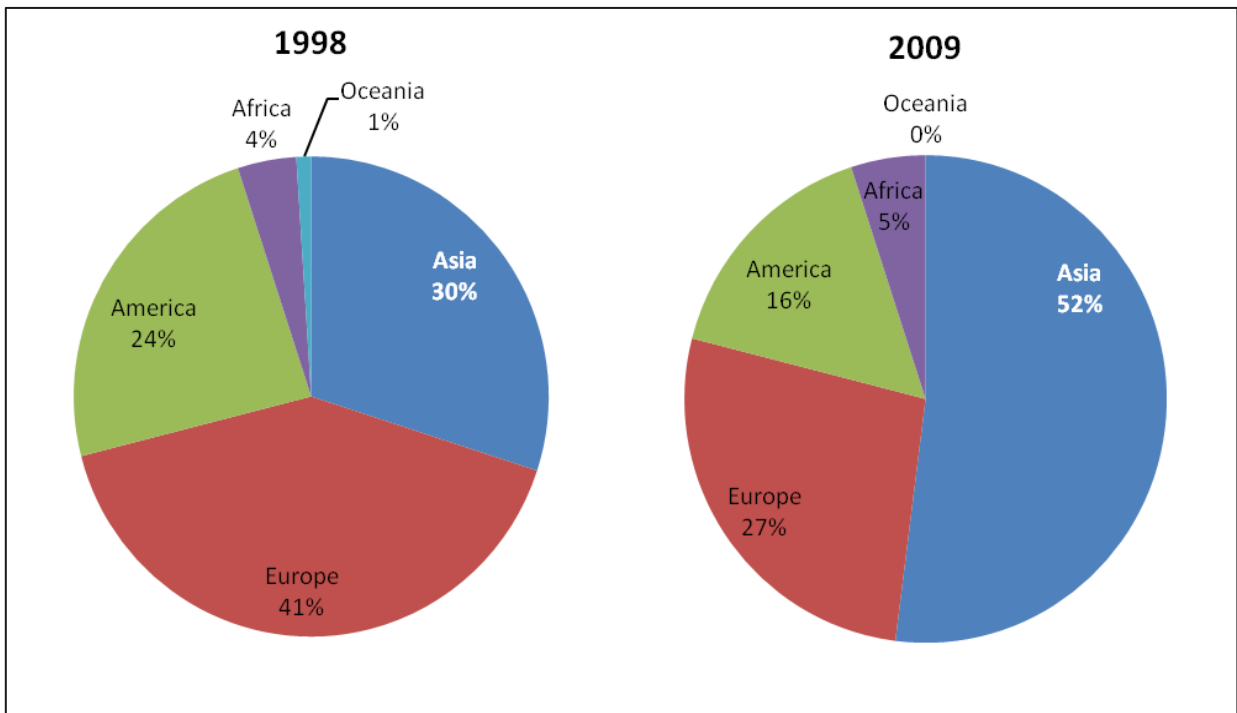
The World Conference of Canned Fish and Seafood held in Vigo-Spain in 2012, gave evidence to explain this trend: not only the fish has a renewed perception as a healthy and environmentally safe food, it also has experimented an increase in its consumption in markets such as Asia and Arab countries; and there are new species from aquaculture which are giving value added products, increasing the demand (ANFACO, 2012).

In the same line, according to the FAO, the world fish food consumption is projected to continue to slowly expand during the next decade, linked to the increases in fish production and demand. Per capita fish consumption will rise from 18.9 kg in 2013 to 20.6 kg by 2022. Fish and fishery products are and will continue to be among the most traded food commodities worldwide, thanks to sustained demand, trade liberalization policies, globalization of food systems, improved logistics and technological innovations (OECD-FAO, 2013).

In this sense, according to Global Industry Experts it is expected that the total market of frozen, canned and fresh seafood will exceed US\$370 billion in 2015 (REPORT LINKER), while PRWeb predicts a growth to US\$429.8 billion by 2018, led by factors such as innovation in production, diet and health concerns, improvements in transportation, and a decline in beef and chicken consumption due to Bovine spongiform encephalopathy scare and avian virus infection (PRWEB, 2012).

The demand will be particularly strong in developing regions including Latin America and Asia-Pacific, while Asia will continue as the main global producer of canned fishery products. Figure 3 reveals how Europe has been losing space as global provider of canned fish and seafood, in front of an aggressive expansion of Asia countries' businesses.

Figure 3: Production of canned fish and seafood (2012)



Source: ANFACO

2.2. The Chilean market

In Chile, the yearly per capita consumption of fishery products reaches 22 kg, in landed weight. This is much higher than the global average (15.7 kg) and the rest of South America (10 kg), while similar to countries such as USA (22.2 kg) and Canada (20.9 kg). In order to compare with other white meats (like chicken), the weight of the meat must be considered, which in this case represents 10.5 kg per capita in a year (SONAPESCA, 2013).

Statistics show that the sale of processed sea products grown by 29.5% between 2008 and 2012 (INDUALIMENTOS, 2013). According to the National Society of Fishery, Sonapesca, 22.1% of the 10.5 kg of sea products consumed are canned, while fresh products account for 67.3% and frozen fish and seafood for 10.6%. Also, canned fish and seafood represent 2/3 of all the canned food sold in Chile. Table 3 shows the main products on the segment of our interest and the Chilean per capita consumption.

Table 3: Chilean canned fish/seafood consumption's structure (2013)

Product	Weight	Equivalency
Mackerel	1.83 kg	4.3 cans of 1 lb/each
Tuna	300 gr.	1.6 cans of 185 gr/each
Seafood (mainly mussels, clams, and mixed)	163 gr.	-
Sardine or anchovy	70 gr.	-
TOTAL	2.3 KG	-

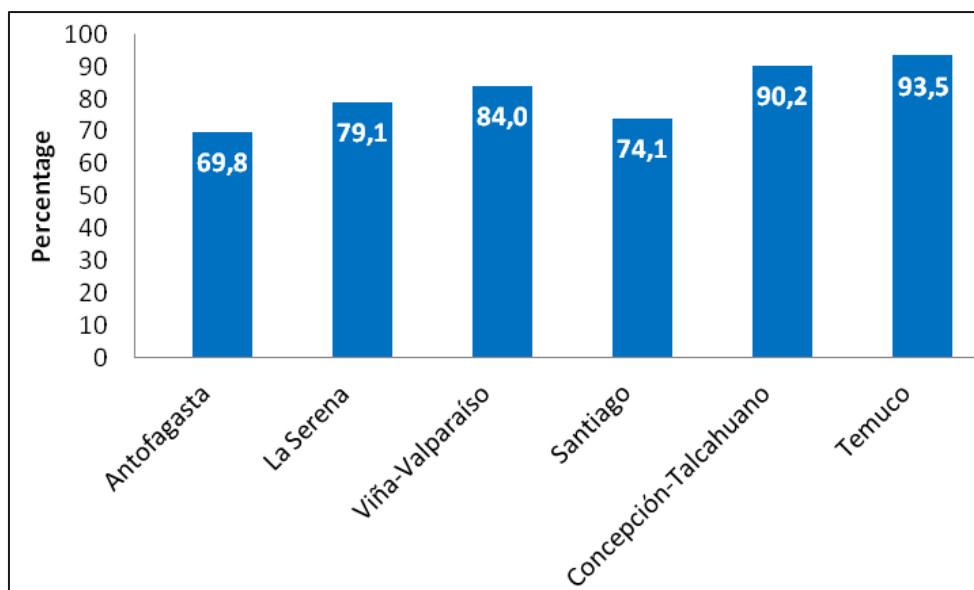
Source: Sonapesca

It is interesting to observe that roughly two out of those ten kilos are of mackerel, which means this fish represents about 20% of the total consumption, as well as the 80% of the internal market of canned fish/seafood (SONAPESCA, 2013). This fish is characterized as a good source of Omega 3, it is cheaper in the Chilean market when compared with other canned products and, together with tuna and sardines, it is part of the Chilean basic food basket.

As an extra fact, consider that the Chilean organization for education and scholarships "JUNAEB" utilizes canned food to prepare the menus in public schools and universities, where the mackerel is one of the preferred choices; and the Chilean Government's national campaign "Elige Vivir Sano" (Choose to Live Healthy) promoted the consumption of this fish in a healthy diet (SONAPESCA, 2013).

Regarding to general consumption, according to data provided by Nielsen the penetration of canned fish in houses averages 76.9% in the whole territory.

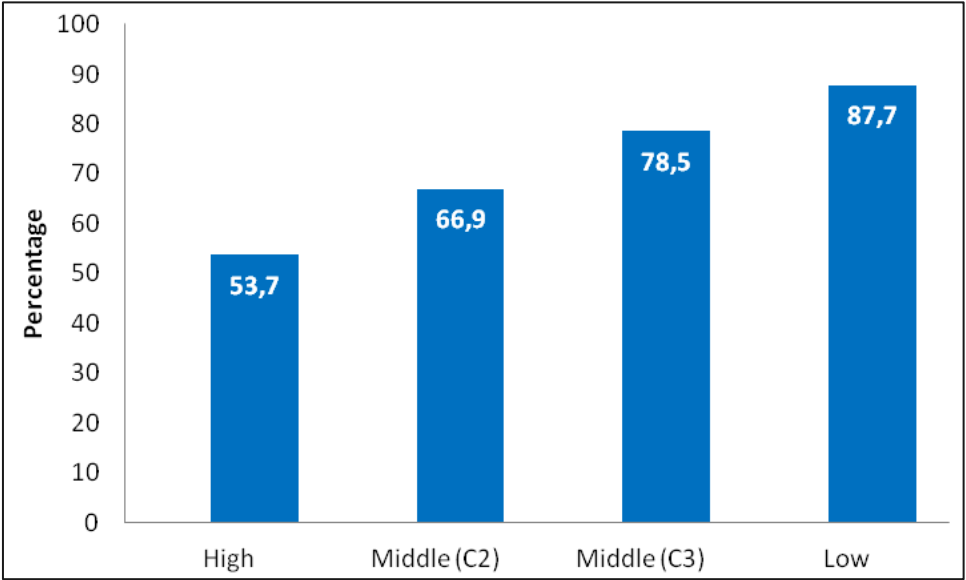
Figure 4: Yearly penetration of canned fish in houses (Main cities, 2012)



Source: Nielsen

Notice that canned fish is a product widely accepted among Chilean consumers. Even when its consumption is higher when the lower the Socioeconomic Status (SES)¹, it has a penetration above 50% in all the SES, as shown in Figure 5.

Figure 5: Yearly penetration of canned fish by SES (2012)



Source: Nielsen

2.2.1. Characteristics

In general terms, the Chilean market of canned fish and seafood is characterized by a coexistence of internal and imported products, as well as the export of a high volume of the internal production.

The National Service of Fishery in Chile, Sernapesca, indicates that in 2013 the production of canned fish/seafood reached more than 30,000 tons, being the fish the main source, as shown in Table 4.

Anyway, according to Sernapesca executives², most of the canning companies in Chile prefer to export to countries and regions such as European Union, Nigeria, US, Japan and Russia, based on profits analyses. Also, they asseverate that it exists a moderate internal consumption of canned seafood, as consumers prefer fresh and frozen products in this segment, being the product known as “mixed seafood” (the equivalent for the Spanish name “surtido para caldillo”) the one with biggest number of sales based on its low price.

¹ Refer to [Appendix A](#) to see a short description of SES in Chile.

² Interviewed executives asked to remain anonymous.

Table 4: Chile's raw material and production of canned fish/seafood (2013)

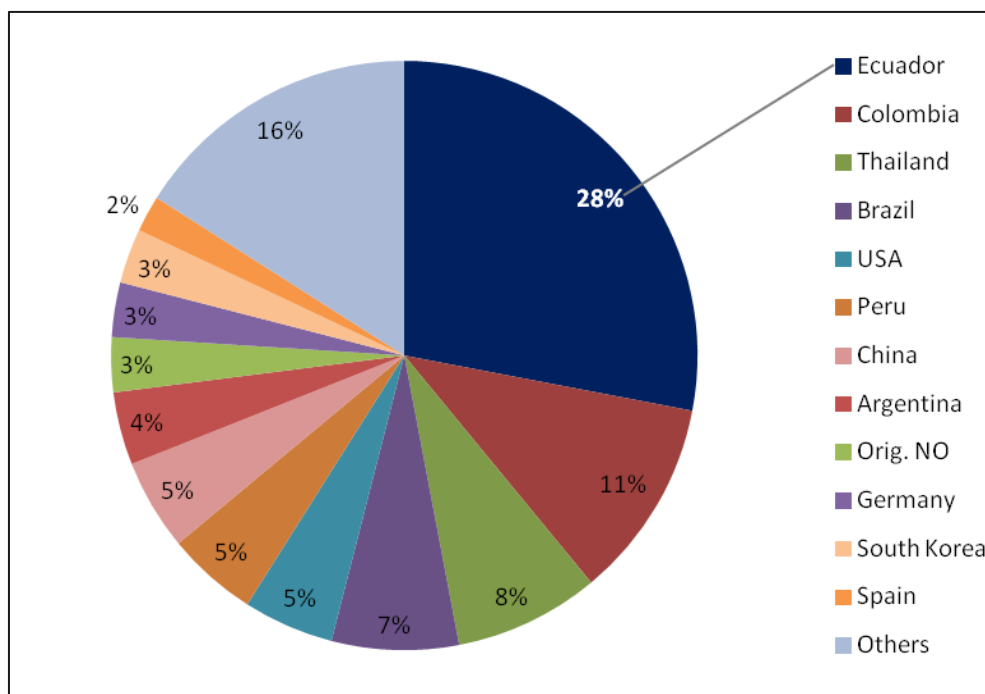
Specie	Type	Total in tons
Seaweed	RM	0
	P	0
Fish	RM	47.667
	P	23.261
Mollusks	RM	27.094
	P	7.305
Crustaceans	RM	479
	P	127
Other species	RM	318
	P	27
TOTAL	RM	75.558
	P	30,720
RM= Raw material P= Production		

Source: Sernapesca

The fact that local producers decided to export their products is one of the reasons that explain why, having such a long coast, a country like Chile imports lots of processed sea products, including tuna, sardines, shrimp and mackerel, among others. That and the fact that extraction quotas have been low in recent years, that there is a preference for Ecuadorian tuna (also based on availability) and the search of low cost products in foreign markets like China (Sernapesca executives assure that, when comparing a US\$1 Chinese can versus a US\$2 Chilean can, distributors do not think it twice to choose the cheapest one).

In this sense, in 2010, more than 29 thousand tons of fishery products were imported to the country, where canned products represented 70% of the imports. Ecuador was the main provider, sending 3,225 tons of canned tuna. Other countries also provided canned tuna: Thailand with 2,017 tons; Brazil, 1,880 tons; USA, 1,094 tons and Peru sent 1,258 tons (VILLENA, 2012). Figure 6 shows the main countries in Chilean fishery imports.

Figure 6: Imports by country of origin (2010)



Source: National Customs Service

2.2.2. Market size

In order to define the market size, it is going to be considered the total sales of canned sea products, including all the available brands. Table 5 shows the total sales for canned fish until 2012.

Table 5: Total sales for canned fish in Chile (2012)

Year	Volume (kilos)	Total value (dollars)
2012	15,121,000	69,859,020
2011	13,001,000	60,064,620
2010	14,901,000	68,842,620

Source: Nielsen / Own elaboration

Notice that the market value in dollars was obtained considering the average price per kilo, which in 2012 was US\$4.26. In order to define this year's market value, the average price will be readjusted by inflation, with the cumulated Consumption Price Index (IPC, by its name in Spanish), obtaining an average price per kilo of US\$4.61 for 2014 (for more details, see [Appendix B](#)).

Data about seafood has been aggregated to compute the market size, and the total volume of sold canned fish has been updated considering a 5% of growth per year, based on Nielsen's reports. Table 6 shows the total market of Chilean canned fish and seafood, which is 20.912 tons per year and reaches a value of US\$97.310 million.

Table 6: Chilean market of canned fish and seafood (2014)

Product	Volume (kilos)	Total value (dollars)
Canned fish	16,600,000	76,526,000
Canned seafood	4,312,000	20,783,840
TOTAL	20,912,000	97,309,840

Source: Nielsen / Own elaboration

In order to define the Chilean market size of canned fish and seafood, it will be considered two kinds of clients in the interest of Ocean Garden: Mass grocery retail, where the company could operate as a distributor with its brand "Hyper Harbor"; and canned seafood brands, where it could be a supplier of non-labeled products (private brands).

a) Mass grocery retail

In this consulting project, the Chilean mass grocery retail (MGR) sector comprises supermarkets and hypermarkets, not only because they are the main distributors of canned food globally, but also because supermarkets have grown in importance in recent years and the hypermarket format has become increasingly popular with consumers in this country.

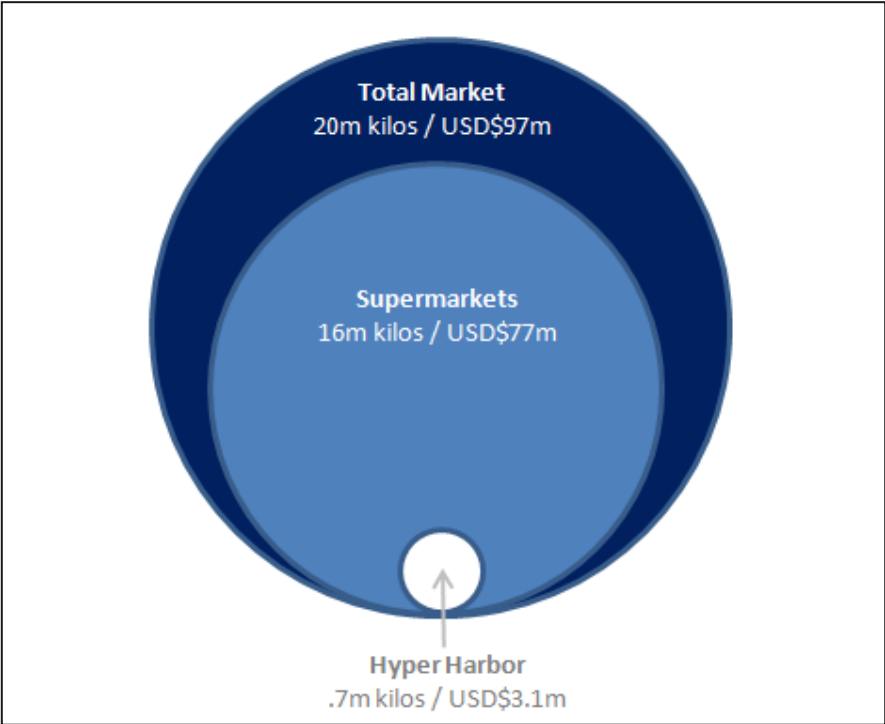
The National Institute of Statistics, INE (Instituto Nacional de Estadísticas de Chile), points that the supermarkets segment has experienced a fast growth in Chile, registering a total of 1,233 stores in the whole country in 2011, with 541 of them in Santiago, the capital city. The sales reached US\$4.9 billion that year, growing by 18% in only three years (SERNAC, 2012).

The leading player in the segment in Chile is Walmart (former D&S), with a market share of 38%, followed by Cencosud with a market share of around 26.7% (PULSO, 2014). In third place is SMU, which operates Unimarc and Bigger, with a market share around 23.7% followed by smaller chains including Falabella-owned Tottus with 6.4% of the market (ESTRATEGIA, 2014), as well as Supermercados Montserrat and Supermercados Bryc. There is also a number of regional supermarket chains, including Korlaet in Antofagasta, Cofrima in Punta Arenas and Economax in Santiago (BUSINESS MONITOR INTERNATIONAL, 2014).

Considering that supermarkets represented 82.2% of the total sales of the market in 2012 (NIELSEN, 2013), it is going to be supposed an 80% of the total market for this

segment (the other 20% corresponds to traditional channels such as convenience stores). Also, an expected 4% of penetration³ of Hyper Harbor products will be supposed, which would mean to position the brand within the top 10 products sold in the segment. In order to do this, Ocean Garden should compete to take part of the market of brands such as Coliseo (4.6%) and Deyco (3.8%), at the same time than displacing to minor brands like Pacifico and Atlas (each with 1.2% of the market). In this sense, the potential market for the company is of 669,000 kilos and a value of US\$3.113 million.

Figure 7: Market penetration for Hyper Harbor



Source: Own elaboration

b) Canned seafood brands

In Chile, most of the canned products entering from abroad are intended to be sold under local brands. Actually, according to Sernapesca executives, from the total of canned seafood entered to the country, 90% correspond to non-labeled cans, ready to be labeled by some of the Chilean brands.

Within this segment, the main clients are, again, supermarkets and hypermarkets, which acquire the products to sell them as its white-label products (or private brand), where Cencosud (Jumbo, Jumbo Premium) and Walmart (Acuenta, Líder, Great Value) are the major buyers (SERNAPESCA EXECUTIVES, 2014).

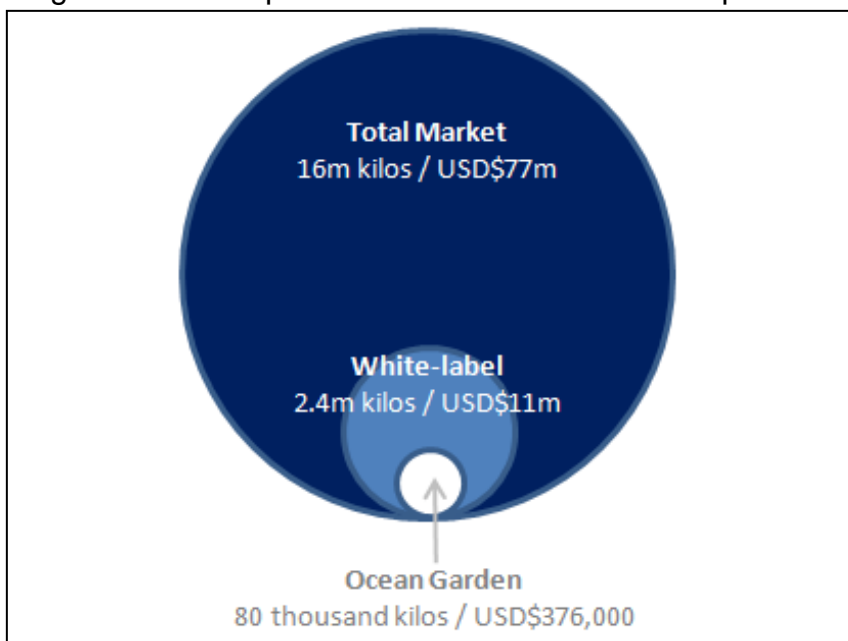
³ This percentage has been defined based on the benchmark performed within the segment, considering the average market share of the seven brands that follow San José and White-label products in the ranking provided in Section 3.

According to data provided by the Center of Retail Studies (Centro de Estudios del Retail – Universidad de Chile), in 2011 the white-label products represented in average 10% of the total sales of supermarkets (SALAMIÁ, 2012), a number that is expected to grow quickly.

The success of these products is given by lower prices but a good quality when compared with traditional brands, allowing customers to save between 30% and 40% in the total of their purchases (AGUIRRE, 2014). Actually, white-label products represent 14.3% of the total market of canned fish and seafood, occupying the second position in the ranking of better sold products (NIELSEN, 2011).

To define the market opportunity for Ocean Garden’s products, it is going to be supposed the total market as the MGR niche, as these companies control and sell the majority of white-label products. In this sense, considering that Ocean Garden will be able to supply products for one of these supermarkets⁴, the potential market for the company reaches 80,860 kilos and a value of US\$376,270. It is supposed that the company will be able to be provider for SMU because of two reasons: 1) SMU is the third biggest supermarket in Chile, which places it in a affordable position for the company to attack; and 2) within the SMU white-label products (Merkat), the mackerel is directly imported from China, revealing a disposition of this supermarket to acquire Asian products⁵.

Figure 8: Market penetration for Ocean Garden's products



Source: Own elaboration

⁴ It is going to be considered SMU, which accounts for 23.7% of the market. Considering that white-label products represent 14.3% of the sales of canned sea products in supermarkets, the potential market for Ocean Garden is estimated as this percentage of the market share of SMU, this is:
 Potential market= White-label market * (14.3% white-label sea products * 23.7% SMU market share)

⁵ For the case of seafood, SMU buys to “Inmuebles Cataluña Ltda.”, a minor cannery which works with fisherfolks; which also places the company in a favorable position.

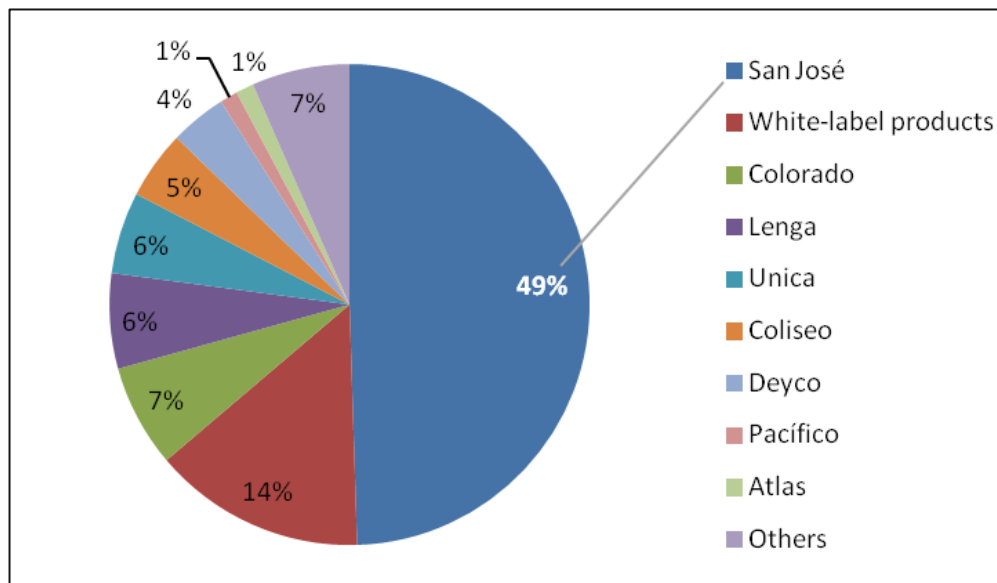
3. COMPETITORS

Ocean Garden will meet different competitors depending on the way it decides to enter the Chilean market: if it does it as a distributor with its brand “Hyper Harbor”, it will compete directly with the other products present in the marketplace and in the negotiation process with the intermediaries such as supermarkets; if it decides to go as a supplier, it will have to gain market among the canning companies present in Chile.

3.1. Products

In Chile, the canned sea products –especially those based on fish- can be seen as a commodity, with extensive presence in the retail market. In this sense, according to data provided by Nielsen, it is possible to find more than a hundred products offered to the final customer within this segment, where the brand San José is the one with the largest market share, followed by white-label products.

Figure 9: Market share per brand in Chile (2012)



Source: Nielsen / Own elaboration

Table 7 shows the most competitive products within the segment of canned fish⁶, the main in the industry. Notice that the rank is lead by mackerel products, which represents about 80% of the market. San José’s mackerel alone represents the 43% of the market, a remarkable fact within such as competitive industry, given by an intensive marketing campaign of the company in the ‘80s and ‘90s to position this product as the “cheapest source of proteins in Chile”, useful to prepare croquettes, stews and salads (IBARRA, 2011).

⁶ White-label products have been excluded from this table to better understand the most competitive individual products in the segment.

Considering the products offered by Ocean Garden, an extensive table with the competitive products available in the marketplace is provided in Appendix C.

Table 7: Top 5 products of the canned fish segment







#	Product	Description ⁷	Competition for Ocean Garden's
1		San José, Mackerel in brine 425 gr. Market Share: 43.4% Ingredients: chopped mackerel, water, salt. Nutritional info.: 140 calories, 24 gr. proteins, 320 mg. sodium. Avg. market price: US\$1.76	Mackerel in brine 425 gr.(15 oz) Ref. FOB price: US\$0.65 
2		Colorado, Mackerel in brine 425 gr. Market Share: 6.9% Ingredients: chopped mackerel, water, salt. Nutritional info.: 210 calories, 22 gr. proteins, 420 mg. sodium. Avg. market price: US\$1.58	Mackerel fillets in oil 120 gr. (4.25 oz) Ref. FOB price: US\$0.53 
3		Lenga, Mackerel in brine 425 gr. Market Share: 6.4% Ingredients: chopped mackerel, water, salt. Nutritional info.: 134 calories, 24 gr. proteins. Avg. market price: US\$1.56	Mackerel in tomato sauce 425 gr. Ref. FOB price: US\$0.65 
4		Coliseo, Mackerel in brine 425 gr. Market Share: 4.6% Ingredients: chopped mackerel, water, salt. Nutritional info.: 140 calories, 24 gr. proteins, 320 mg. sodium. Avg. market price: US\$1.52	
5		Única, Mackerel in brine 425 gr. Market Share: 3.3% Ingredients: mackerel, water, salt. Nutritional info.: 149 calories, 23.6 proteins, 272.4 mg. sodium. Avg. market price: US\$1.53	

Source: Nielsen / Own elaboration

⁷ Nutritional information every 100gr.

Table 8 shows some of the canned seafood products present in the market, intending to represent the current competition for Ocean Garden based on own research, as data provided by official sources is not enough to rank these products. Recall that the canned mixed seafood (“surtido para caldillo”) is the preferred product within the segment, according to Sernapesca executives.

Table 8: Canned seafood products

Product	Description	Competition for Ocean Garden's
	<p>San José, mixed seafood in water 190gr.</p> <p>Price: US\$1.48 Price per kilo: US\$7.75 Ingredients: Mussels, clams, stains, razor clams, water, salt, citric acid and glutamate. Nutritional info.: 104 calories, 19 proteins, 405mg. sodium.</p>	<p>Not similar products within the company</p>
	<p>Angelmo, mixed seafood in oil 425gr.</p> <p>Price: US\$3.03 Price per kilo: US\$7.13 Ingredients: Minced and chopped seafood, whole mussel, razor clams, clams, stains, water, vegetable oil, salt, citric acid. Nutritional info.: 155 calories, 11.2 proteins, 442mg. sodium</p>	<p>Not similar products within the company</p>
	<p>San José, mussels in water 190 gr.</p> <p>Price: US\$1.67 Price per kilo: US\$8.82 Ingredients: Mussels, water, salt, bay leaves, citric acid, monosodium glutamate. Nutritional info.: 122 calories, 18.7 proteins, 537mg. sodium.</p>	<p>Smoked mussels in oil, 85 gr. Ref. FOB price: US\$0.48</p> 
	<p>Robinson Crusoe, clams in water 425gr.</p> <p>Price: US\$4.39 Price per kilo: US\$9.75 Ingredients: clams, water, salt, sodium tripolyphosphate, ethylenediaminetetraacetate. Nutritional info.: 50 calories, 8 proteins, 148 mg. sodium.</p>	<p>Smoked baby clams in oil , 85gr. Ref. FOB price: US\$0.63</p> 

Source: Own elaboration

3.2. Canning companies

In Chile, the internal offer is given by canning companies located mainly in the regions of Tarapacá in the north, and Araucanía and Los Lagos in the south⁸. Most of them are companies that produce and then sell to national distributors which commercialize under private label, where we can find a lot of supermarkets (LUCENA, 2001). In the case of canned tuna, foreign companies are the main suppliers for Chilean companies, especially from Ecuador and Thailand.

The supply chain of most of these canneries is the same: they get the fish with its own industrial vessels in the country's maritime borders, load which is then transferred to the ports to be processed in their own plants located along the coast. The whole process is carried within those plants, and a finished product (labeled or unlabeled depending on its objective) is transported to distributors such as supermarkets via overland trucks. These similarities imply that they have to compete trying to reduce costs whether in the capture, processing or distribution process, and that the price competition in the market is fierce. According to data provided by the National Institute of Statistics, the reference price for a box of 24 units of canned mackerel (425 gr/15oz, in brine) is roughly US\$17 before taxes in Chile; take in consideration that Ocean Garden sells it at US\$15.

Considering the industry of canned fish in Chile (dominated by mackerel), a study prepared by SCL Econometrics for the National Secretary of Fishing, Subpesca, indicates that exists a high concentration in the production (VILLENNA, 2012), distributed in only 17 companies⁹. These companies have established their dominion thanks to the attribution of extraction quotas given by the Chilean State; and most of them are fishery companies that have vertically integrated their businesses as canneries. Actually, according to Sernapesca executives, the most relevant players among this group are Orizon S.A, the most relevant company with almost 20% of the exploitation rights of mackerel in Chile, producing the brands San José and Colorado; FoodCorp, the only relevant company with foreign capitals that accounts for 8% of the quota and produces the brand Pacífico; and Camanchaca Pesca Sur S.A, with a 16% of the extraction and sells canned jack mackerel to different brands such as Lider, Única and Pacific Ocean (FIGUEROA, 2012). This supposes that, if a brand is not able or willing to negotiate with one of these powerful companies, they tend to import from abroad (which could be the case of SMU and its Chinese canned mackerel).

In the case of mollusks, the concentration of the industry is moderated, with 26 companies in the whole territory. In a regional perspective, it is the Region of Los Lagos the one with the highest production, with 16 enterprises representing a 76% of the

⁸ A map of Chile is provided in the [Appendix D](#).

⁹ In a regional view, the Region of Coquimbo presents a remarkable participation in the national scenario, where only one company concentrates the 43% of the national production. In the Region of Biobío there are 8 companies that, together, represent 56% of it; while in Los Lagos there are 9 canning companies that produce only 1% of the national total.

national outcome; even though, it is only Trans Antartic Pesquera Ltda. the one that counts with the 47% of the regional production. The same occurs in Biobío, where 14% of the national production is distributed, but only Alimex S.A. generates 45% of the regional production; and in Coquimbo, where Soc. Conservera Coquimbo Ltda. accounts for 88% of the regional production over an aggregate participation of 10% nationally.

In the case of crustaceans, there are only 4 canning companies in Chile, being the Region of Magallanes the highest national player, with 86% of the production. Of the two companies present in that area, Comercial Comtesa S.A. accounts for 85% of the regional production. Each, Los Lagos and Biobío, have one canning company for crustaceans, representing 3.3% and 10.9% of the national production respectively.

Table 9: Main fish/seafood canning companies in Chile

Company	Description	Product categories
<p>Orizon S.A www.orizon.cl</p>	<p>It belongs to the Chilean Group of Copec Companies, one of the largest conglomerates in South America. Its shareholders are Pesquera Iquique-Guanaye S.A (50,1%), Sociedad Pesquera Coloso S.A. (40,0%), and Empresa Pesquera Eperva S.A. (9,9%).</p> <p>It has 11 processing plants distributed in the regions of Coquimbo, Maule and Los Lagos; and produces the brands San José and Colorado.</p>	<ul style="list-style-type: none"> •Canned fish •Canned shellfish •Pouch
<p>FoodCorp S.A www.fcc.cl</p>	<p>A company with a large tradition in the fishing industry, that counts with the support of Norwegian capitals from Austevoll Seafood ASA. It has a canning plant in Coronel (Region of Biobío) and produces the brand Pacífico.</p> <p>This company did not produce in 2014 because of internal issues.</p>	<ul style="list-style-type: none"> •Canned fish •Industrial food •Frozen fish
<p>Camanchaca S.A www.camanchaca.cl</p>	<p>A Chilean company with operations from the north of Chile in Iquique to the very south, and sales offices in the USA (Miami), Japan (Tokyo) and Europe (Denmark) in addition to its corporate office in Santiago Chile.</p> <p>It is focused mainly in the export of seafood with the brands Camanchaca and Pier33Gourmet. It is also supplier for Unica, and for the white-label products Líder (Walmart).</p>	<ul style="list-style-type: none"> •Canned fish •Canned seafood •Frozen fish

Pesquera Trans Antartic Ltda. www.crusoefood.com	Created in Chile in 1977, this company has a processing plant near to Puerto Montt, in the Region of Los Lagos, and counts with businesses in 22 countries. In 1983 it acquired the brand Robinson Crusoe , which maintains as main product line until today.	<ul style="list-style-type: none"> •Canned fish •Canned seafood
Alimex S.A www.alimex.cl	Part of the Chilean Holding group Multiexport, the company buys raw material to process it in its plants located in the regions of Coquimbo, Biobío and Los Lagos. It is mainly focused in the export of processed products.	<ul style="list-style-type: none"> •Canned seafood •Frozen fish •Frozen seafood

Source: Own elaboration

3.3. Market analysis

3.3.1. Porter's five Forces Analysis

a) Rivalry

There is a high rivalry within the market considering both types of competitors.

In the case of the products, there is a high concentration, as there are at least a hundred products competing in the MGR segment nowadays. The concentration is also given by the fact that only one product, mackerel San José, possesses almost half of the market share in the territory; followed by five companies that concentrate about 25% of the market. It is important to notice that there is a fierce competition due to the limited level of product differentiation (consider that prices, qualities and even labels look similar), and the low switching costs showed by the end consumers, who tend to choose the cheapest or better known brands and shape the offer given by the MGR segment (SERNAPESCA EXECUTIVES, 2014).

Regarding to canning companies, there is a high concentration in the production of canned fish in Chile, distributed in only 17 companies; and the rivalry is increased as the extraction quotas give the power to few of companies that dominate the market, showing characteristics of an oligopoly; plus, as the supply chain is similar in most of the companies, the costs reduction is necessary to compete with better prices. This rivalry is also exacerbated by foreign suppliers that sell directly to companies with white-label products, where Ecuador, Colombia and Thailand concentrate almost half of the imports with tuna-based products. Here, companies that buy the unlabeled products exhibit higher switching costs and determine higher barriers to buy, as it is their image the one at stake when people prefer the product.

b) Threat of substitutes

The direct substitutes for canned fish and seafood are fresh and frozen products, and their threat is medium-high.

In a market that is geographically marked by the coast, the access to sea products is not difficult, especially in public markets. Actually, in 2013 the fresh products represented a 67.3% of the per capita consumption, where the common hake, pippin and clams led the sales (SONAPESCA, 2013); while frozen products supposed a 10% of the market. In the matter of the quality, low-income consumers prefer the cheapest products, even when the biological value is not the same; in this sense, the price of a kilo of fresh fish is on average US\$5, higher than the average US\$3 of canned mackerel.

c) Threat of new competitors

The introduction of new players seems to be low within this market, as there is a number of barriers to entry such as high capital requirements (to provide a quality product or marketing campaigns to provide recognition), and high regulations from the National Service of Fishery – Sernapesca. This, added to the fact that the Chilean fishery activity is dominated by a closed circle of nine economic groups that own 90% of industrial fishing for mackerel, sardine and anchovy (FIGUEROA, 2012), which makes very difficult for new players to develop new branded sea products.

d) Buyer power

Canned fish and seafood products are sold mainly in the MGR segment, which is, at the same time, the main possible target for Ocean Garden's products. We can observe that the hyper/supermarkets present a fierce competition in Chile, where Walmart and Cencosud handle almost 65% of the market; in this sense, the competition is based on prices, quality and lifestyles, giving to their own brands (Lider, Acuenta, Jumbo, etc.) a high relevance. In this sense, their purchasing power is elevated, as they can choose among a large number of sellers, whether in the concentrated Chilean canning industry or foreign suppliers, considering their own interests (for example, if they are willing to cover shipping costs or not) and quality standards.

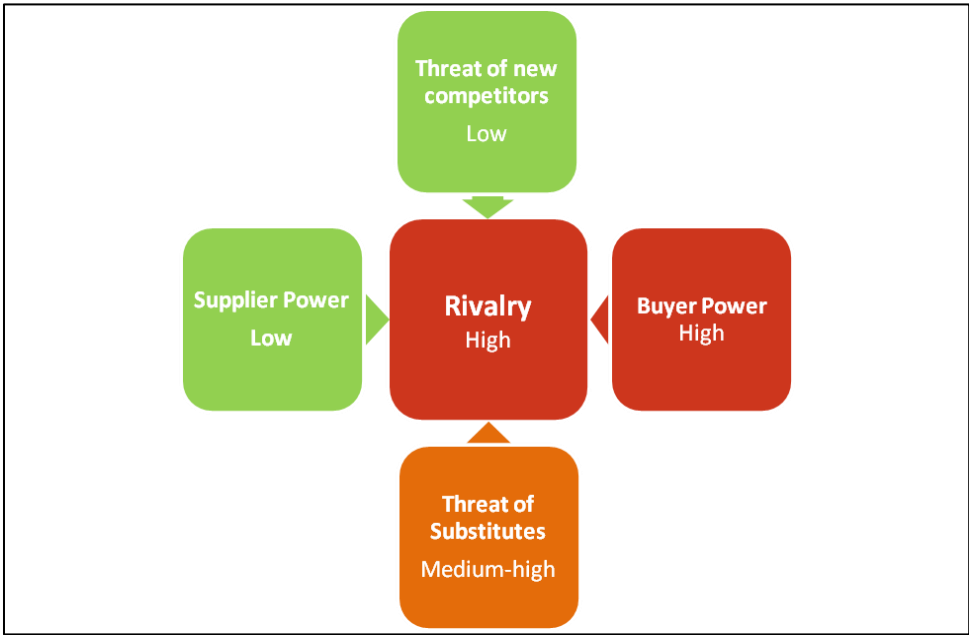
e) Supplier power

Within this context, the supplier power is given by agents who facilitate the import process and transportation services, as the products have been processed before entering the market; presenting a low influence.

In this case, customs brokers present a trustful role within the State, since they are civil and administratively liable for any fraudulent act or negligent omission that violates or would prejudice the interests of the Treasury, or is contrary to best serve the State or their serviced (SERVICIO NACIONAL DE ADUANAS, 2014). Regarding to transportation, they have a slightly higher power as will be the responsible for carrying the products from ports to end destinations. Anyway, as the competitive landscape for

these service providers is fierce and supermarkets actually have agreements with distribution companies, they are not in a position to impose prices or extreme conditions.

Figure 10: Porter's Forces analysis for the Chilean market of canned fish and seafood



Source: Own elaboration

As seen in this analysis, the industry of canned fish and seafood in Chile is complex to access, not only because barriers to entry such as capital, legal and regulatory requirements, but mainly because of the fierce competition among a small number of brands and canning companies. The high levels of concentration make difficult to keep a part of the market, as well as the elevated buyer power and the constant threat of frozen and fresh products, which abound in the country; even though the low possibility of new entrants.

Nevertheless, the industry is attractive for a company such as Qingdao Ocean Garden that already possesses experience in the industry of this kind of commodity, and keeps a deep know-how on its functioning.

4. POTENTIAL CLIENTS¹⁰

Whether selling their Hyper Harbor products or acting as a supplier, the potential customers of Ocean Garden are in the MGR segment, being the most striking the major supermarket chains: Walmart, Cencosud and SMU.

In order to get a deal with one of these retail chains, the contact with a buyer must be established. The “buyer” or “product manager” is the executive in charge of the introduction of new products in a retail chain, generally a business person with strong negotiation abilities and the capability to keep a product in the market. They are in charge of the planning, projection, launching and pricing of a product, as part of the strategic distribution of a category of products (which in this case will be probably called "conserved food"). Because of that, they are experts in the category, being also knowledgeable of the import processes and regulations.

In the development of this project, diverse product managers from the main MGR stores have been contacted, whether to get deeper insights about the industry functioning or to establish the initial contact to sell Ocean Garden products. A deeper description can be revised in [Appendix E](#).

Then, information on the three potential clients for Ocean Garden will be provided, including SWOT analyses, with the objective of contextualize the company on the current situation of each and provide a clearer view on the projections that it might develop.

4.1. Walmart Chile

Walmart Chile (former D&S) is the largest grocery retailer in Chile, with a market share of around 38%. “It currently operates under the Lider, Lider Vecino and Lider Express fascias. At the end of 2008, Walmart announced a successful takeover bid for the retailer to hold roughly a 60% stake, which was increased to about 75% by the end of 2010” (BUSINESS MONITOR INTERNATIONAL, 2014).

In a similar way to other Latin America MGRs, Walmart Chile develops its strategy adjusting its stores to different target groups. In this sense, the “Lider hypermarkets are positioned as a one-stop shopping destination for the Chilean middle classes, while Lider Vecinos tend to be smaller stores, typically converted from Ekono stores and targeted towards smaller communities” (BUSINESS MONITOR INTERNATIONAL, 2014). The “everyday low price strategy” is a key element of this retailer operation.

¹⁰ Most of the information for this section has been obtained from Business Monitor reports. SWOT analyses for Walmart and Cencosud have been extracted from its Q4 2014 Report.

Table 10: Walmart Chile key information

Head office	Avenida Presidente Eduardo Frei Montalva #8301, Quilicura, Santiago – Chile
Telephone	+5622005000
Website	www.walmartchile.cl
Business contact	Rodrigo Samhan Buyer of Condiments and Preserves (fruits, vegetables and seafood) Tel: +5624845883 Email: rodrigo.samhan@walmart.com

Source: Walmart Chile

4.1.1. SWOT Analysis

a) Strengths

- Strong position in Chile's mass grocery retail (MGR) market with a market share of around 38%.
- Present across outlet formats and thus able to reach a broad variety of consumers.
- Backing of world's largest retailer, Walmart.

b) Weaknesses

- Has not managed to use its Chilean base to expand into other Latin American markets, unlike its main rival Cencosud.
- Operates in an extremely competitive market environment and a highly consolidated MGR sector increasingly characterized by strong price competition.

c) Opportunities

- Increases in sales area, in the Lider Express supermarket outlets in particular.
- Further expansion of the store network.
- Planned expansion into Peru and other neighboring markets.
- Takeover by Walmart catapults D&S into a new 'retail league' in Chile.

d) Threats

- Increased maturity limits opportunities for expansion in domestic market.

4.2. Cencosud

Cencosud is Chile's second largest MGR and, following the acquisition of supermarket chains Santa Isabel and Las Brisas, has a market share of around 26.7%. It operates Jumbo hypermarkets and Santa Isabel supermarkets, and has presence in Chile, Argentina, Peru, Brazil and Colombia.

The company has a expansive strategy, focusing on Peru and Brazil, with the US\$500 million acquisition of Wong in the former and the US\$430 million purchase of G. Barbosa in the latter. These acquisitions indicate that regional expansion will be the focus of much of Cencosud attention in the coming years.

Table 11: Cencosud key information

Head office	Avenida Kennedy #9001, Piso 6, Las Condes, Santiago - Chile
Telephone	+5629590000
Website	www.cencosud.com
Business contact	Only through an online form, available in: Jumbo http://www.jumbo.cl/supermercado/familia_jumbo/proveedores.html Santa Isabel http://www.santaisabel.cl/proveedores/

Source: Cencosud

4.2.1. SWOT Analysis

a) Strengths

- Chile's second largest mass grocery retailer (MGR) with a market share of 26.7%.
- Present across outlet formats and thus able to reach a broad variety of consumers.
- Unlike main rival Walmart Chile, Cencosud has successfully expanded abroad and therefore is not overly dependent on the mature Chilean market.

b) Weaknesses

- Local market is fairly small, extremely competitive and consolidated.
- The retailer will have to borrow and invest heavily in order to fund its planned acquisitions and expansions.

c) Opportunities

- Further acquisitions in the domestic market.
- Expansion of operations in other Latin American markets, including Brazil, in order to maintain growth.

d) Threats

- Cencosud is expanding outside of Chile, where it will face strong competition from a number of strong MGRs.
- Increased competitive pressure from a renewed D&S now under Walmart control.

4.3. SMU

SMU S.A (Supermercados Unimarc) operates various supermarkets in Chile, representing 23.7% of the market. It is a retail supermarket company, with participation in the formats of supermarkets, convenience, wholesale and internet sales. The company operates under the names of Unimarc, OK Market, and Telemercados, with a total number of 436 supermarkets, and it has the largest geographic coverage of the country (SMU, 2014).

In 2013, SMU signed a deal with Waitrose (an UK grocery chain) to sell its products in Supermercados Unimarc's stores. SMU has investment plans totaling an additional US\$1 billion to expand its presence in the country and the wider region. At the end of 2013, Unimarc announced the closure of a store in Valdivia, leaving almost 80 employees out of work.

Table 12: SMU key information

Head office	Cerro El Plomo #5680, Piso 11, Las Condes, Santiago - Chile
Telephone	+56228188000
Website	www.smu.cl
Business contact	Leonardo Méndez ¹¹ Assistant manager for private brands SMU

Source: SMU

4.3.1. SWOT Analysis

a) Strengths

- Chile's third largest mass grocery retailer (MGR) with a market share of 23.7%.
- It has the largest geographic coverage in the country.

b) Weaknesses

- It has been rated as “vulnerable” in its business profile, after the deterioration of its position in 2011.
- It presents an operating performance below other industry players.

c) Opportunities

- The wide geographic diversification and size of transactions reached create conditions for the potential realization of economies of scale in the medium and long term.
- The new promotional plan and improved product availability do provide stabilization in demand.

¹¹ Direct contact via LinkedIn messages has been established.

d) Threats

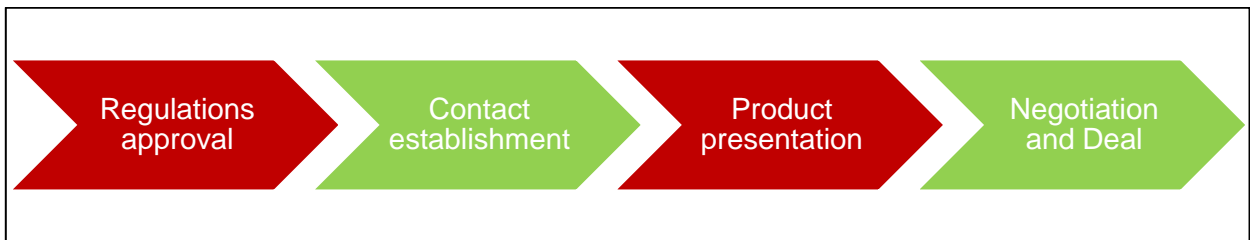
- Increased competitive pressure from Walmart Chile and Cencosud.
- Its ability to generate funds internally, would not achieve to cover debts due in 2015.

5. SELLING PROCESS

Whatever the segment Ocean Garden decides to attack, it will be necessary to accomplish a negotiation and distribution process that, in this case, will be focused on hyper/supermarkets current guidelines¹².

The next figure shows the steps needed to introduce new products in the Chilean market of canned fish and seafood (and food products in general). Notice that two of the four steps are in red color, this is because if the supplier company is not able to pass one of them, the buyer will not accept any negotiations anymore (SMU EXECUTIVE, 2014).

Figure 11: Selling process for a new product



Source: Own elaboration

a) Regulations approval

There are a number of regulations, from the health and normative point of view that the companies need to approve before entering to Chile with new products; and that hyper/supermarkets consider as mandatory to initiate contact with new suppliers. Specific information on the regulatory frame for canned fish and seafood will be provided in [Section 6: Regulations](#).

Also, in companies like Walmart, the seller company needs to approve an audit which verifies that the company complies with safety and hygiene, does not promote child labor, and has legal insurance, among others (WALMART EXECUTIVE, 2014).

b) Contact establishment

Once the company is able to demonstrate that it has all the legal documentation in order, it can contact to product managers in the hyper/supermarkets. This contact can be made through email, phone or videoconference before being in person.

¹² All the process described in this section is the result of interviews with Chilean supermarket executives that asked to remain anonymous.

c) Product presentation

Mandatory to establish a commercial relation with hyper/supermarkets, this step consists in a display of the features of the product, including format (size, nutritional facts), quality (ingredients, production process), differentiation characteristics (price, quality), etc. Depending on the segment the company will choose (or the Buyer asks for), the presentation format will vary, as it will be shown in the next paragraphs.

d) Negotiation and deal

The final step of the process, but the beginning of a long relation if both parts are satisfied with the agreement. The negotiation can be carried remotely or in a personal way depending on the size of the deal, and it considers important factors such as the import conditions (for example distribution and costs), volume, and final prices. It is important to consider that this process can result or not in a contract, which will depend on the type of deal.

5.1. Selling a branded product

Considering that canned fish and seafood represent a mature market in Chile, there are two main conditions that a product should satisfy to catch the attention of a buyer from a hyper/supermarket: to be innovative or to have a remarkable differentiation characteristic.

If the product is intended to be innovative, then executives will look for new or improved tastes, labels or packages. Now, regarding to the differentiation characteristics, a product will show advantage if it is cheaper, it has recognition to be sold quickly, or the company offers distribution conditions that increase the margins of the buyer.

In order to demonstrate one of these characteristics, after the contact is established, the presentation of the product can be carried remotely or in person, supplying brochures of the available formats (sizes, labels, etc.), samples and prices. In general, the product manager will be assisted by the Imports Division of the supermarket, while the Quality Division will define if the product satisfies the standards of the company.

Once the product is approved, the supplier has two alternatives to develop the commercial relation with a hyper/supermarket: as direct seller or through a trader. In general, commercial agreements are signed, only to verify that both parts will accomplish their responsibilities.

a) Direct sale

If a company chooses to sell as direct partner, then it can do it in three ways: 1) selling its own branded product, through a negotiation process with the supermarket using the CIF or FOB terms (see [Appendix F](#)); 2) selling as exclusive brand in a supermarket, similar to the former but with the condition that the brand will sell only in that company;

and 3) direct to the shelves, where the supplier company is responsible of putting the product in the stores.

b) Traders

The second option for companies is to sell through a trader, who contacts the buyer company and acts as a bridge between both parts. In this case, the buyer only defines the volume of the purchase, being the trader the one who establishes the relation with the supplier; meaning lower distribution costs for the buyer but the need of paying commissions for sellers.

5.2. Selling a non-labeled product

This is a more complex process, where the relationship marketing plays an important role in the communication with the product manager, as that is the person (or persons) responsible of choosing the product, setting its price and ensuring its promotion. Then, the seller should use “a strategy designed to foster customer loyalty, interaction and long-term engagement. It is designed to develop strong connections with customers by providing them with information directly suited to their needs and interests and by promoting open communication” (OLENSKI, 2013).

In this sense, the presentation of the product is also more complex, as it will represent the brand of the hyper/supermarket, as well as its reputation. That is why in this case a product test is required, which goes beyond the mere presentation of its characteristics on a brochure (but this is the first step anyway).

Therefore, supermarkets count with specialized teams to run the product tests (generally conformed by food engineers), that analyze from the origin plant conditions to profitability projections. The test involves the evaluation of the factory conditions, product formulation (sometimes it is required to modify some ingredients or proportions of these), flavor and aroma according to local tastes, revision of the package and a profitability analysis.

If the size of the deal is big enough, executives from the team can travel to visit the supplier company and evaluate in field its conditions. A successful test and negotiation process can result in medium or long term commercial agreements.

6. EXPORTING TO CHILE

Overall, Chile has few trade barriers on imports and investment, so foreign companies have the same protection and operate under the same conditions as local companies. In fact, any natural or legal person may import goods, it is only required to have a tax ID "RUT" (Rol Único Tributario).

Chile has 21 trade agreements with 58 countries, with tariff preferences and releases of Internment Rights for the vast majority of products originating in these countries, complying with the rules of origin that each agreement sets. The agreement with China is effective from October 1, 2006.

6.1. General conditions

There is key information that a company must know to enter the Chilean market. This is general import tariffs, marking and labeling requirements, customs valuation and processing, documentation, and destinations (GONZÁLEZ, 2012).

a) General import tariffs

In Chile the general tariff for all goods is 6% ad valorem, calculated on the customs value or CIF thereof, plus value added tax (VAT), which currently is 19% to is calculated on the customs value plus the duties.

On January 1, 2013, 811 products originating in China, under Category 10 years, suffered a tariff reduction of 10% due to the FTA signed in 2006. To date, the basket of Chilean and Chinese products present a tariff reduction of 80%. In 2015, 100% of the products contained in the FTA will have zero tariffs, certainly excluding 214 products originating in Chile and 152 products from China contained in the Exception List of TLC. Prepared or preserved fish have zero tariffs since January 1st 2015.

b) Marking and labeling requirements

Packaged products must be previously labeled for marketing in Chile, and shall indicate the country of origin, quality, purity, ingredients, net weight, production date and expiration date, additives in canned products, plus the name of the producer and importer.

The tag or label must be in Spanish.

c) Customs valuation

Chile is governed by the valuation rules set by the World Trade Organization "WTO", involving the transaction price and the taxation of the Customs value (CIF plus settings).

d) Customs processing

The Chilean Customs require importers to use the services of a customs broker when the FOB value of transactions exceeds \$ 1,000.00. For lower amounts importers can perform the formalities of admission directly to the Customs Service.

e) Documents required for goods intern

Documents required by Customs for the importation of goods are:

- Bill of Lading (B/L, AWB, etc.)
- Commercial Invoice
- Insurance certificate (if any insurance policies)
- Packing List for containerized cargo
- Certificate of Origin
- Special certificates depending on the type of product (Health Service, SAG, Sernapesca, weapons).

f) Custom destinations

There are three possible destinations: direct import, temporary admission or particular warehouse. The statements may be submitted to Customs in advance, i.e. before the goods arrive in the country, provided they have the required documents.

6.2. Regulations for canned fish and seafood

In Chile, the National Director of Sernapesca is the person in charge of controlling the quality of the fishery products for imports and exports, as well as of providing the official certificates to do so (SERNAPESCA, 2014). In order to enter a product to this country, the company must go through the process shown in the Figure 12.

Figure 12: Process to enter a sea product in Chile



Source: Sernapesca / Own elaboration

6.2.1. Application to enter a fishery product

According to the Law No.18.892 on Fishing and Aquaculture (“Ley de Pesca y Acuicultura” in Spanish), “all the hydro biological resources or their derivatives that are entered to the country require accreditation of legal origin of the goods, thus fulfilling the following procedure:

1. Prior to the entry of fishery products to the country, you must request authorization to the Service to import, for which the importer must submit, with a minimum of 72 hours prior to admission of the goods, in the office of Service the jurisdiction of the place of physical entry into the country, the following documentation: a) The original and a copy of Application for entering Fishery Products form duly completed (SIPP form) and b) Original and two copies of the Certificate established by Service proving the legal origin, signed and stamped by the competent authority of the country of origin” (SERNAPESCA, 2009).

In this particular case, the authorization will depend on the Fishery, Aquaculture and Foreign Trade sub-directions, as the products are derived from hydro biological resources. Both, the Application for entering fishery products and the Legal origin forms will be provided for the client. A sample of both can be revised in [Appendix G](#) and [H](#), the complete forms are delivered in the attached digital folder “Documentation”.

a) Sanitary certificates from the origin country

When presenting the SIPP form, it will be necessary to attach an original sanitary certification issued by the Official Authority of the origin country, providing details of the following information:

- Country of expedition
- Country of destination
- Name and information of the importer
- Name and information of the exporter
- Official Authority (the one that issues the certificate)
- Description of the product
- Scientific name of the entered specie
- Status or type of treatment
- Quantity in units
- Processing company (name and number of registration)
- Date of elaboration / date of caducity or duration (dd/mm/yyyy)
- Transportation
- Temperature of the products
- Address and/or register number of the plant(s)
- Name of the inspector, signature and seal
- Issuance date
- Health declarations stating human consumption (e.g. “apt for human consumption”) or animal consumption (e.g. “non apt for human consumption”).

6.2.2. Sernapesca inspection

Once the documentation is presented in the corresponding jurisdiction, the National Service of Fishery (Sernapesca) has the power to inspect the place where the products are stored, in order to verify that the information provided is truthful. The original documentation should be always available in the storing place.

6.2.3. Date of final approval

If the documentation is accepted, Sernapesca will number the SIPP form and will register the date in the item “Date of final approval” in the same form.

The original SIPP must be in the storing place as requirement to verify traceability. It will be responsibility of the importer to ensure the product remains in the declared place in the SIPP and the final approval of this one.

6.2.4. Approval of salubrity

The control of processed fishery products imported for human consumption in Chilean territory is performed by the Health Seremi (Regional Secretary of the Ministry of Health) in the jurisdiction where the goods enter, so the interested part must accomplish the requirements of that authority. The Food Health Regulations (Reglamento Sanitario de los Alimentos - RSA) establishes “health conditions shall adhere to the production, importation, processing, packaging, storage, distribution and sale of food products for human use, in order to protect the health and nutrition of the population and ensure the provision of safe and healthy food (MINSAL, online). A copy of the regulations is provided in the folder “Documentation”.

However, to introduce the goods to the country is Sernapesca the institution that gives the approval.

6.2.5. Transfer

In order to transfer the entered product, its origin must be accredited. In its destination, the stock has to be declared in the Sernapesca office in the jurisdiction. The transfer of the product must be informed in the same office, not later than 12 hours after.

7. OTHER CONSIDERATIONS

Undoubtedly, in addition to the geographical distance between Chile and China there is a cultural gap that marks the ways of doing business and conditions the product acceptance by end users.

Therefore, this section contains relevant information for Ocean Garden to better understand the context of the country where it expects to develop new businesses.

7.1. Country context

During the last decade, Chile was one of the fastest growing economies of Latin America, however “the international crisis has hit its shores and since 2013 a gradual slowdown of its economic activity is being perceived. After the boom observed between 2010 and 2012, the GDP’s growth was reduced in 2.2% during the first semester of 2014 affected by a regression in the mining sector due to the end of the investment cycle and to the copper prices fall, this added up to a decline in private consumption” (WORLD BANK, 2014).

Because of this and the copper prices reduction, the fiscal deficit is increasing. “The tax reform approved in September 2014 aims at increasing the fiscal expense by 3% of the GDP in order to finance the additional expense in education and to reduce the fiscal gap. The main element of the reform is to remove the Tax Utility Fund (FUT in its Spanish acronym), that is used by the companies to adjourn the tax payment over the benefits that are retained for the investments” (WORLD BANK, 2014). In this context, it is expected an economic growth between 3.75% and 4.75% for next year.

In the last 20 years the country has shown astonishing reductions in poverty levels and an increase in prosperity. Actually, only between 2000 and 2011 the ratio of poor population was reduced from 23% to 9.9%; while the average income of the poorest people expanded in 4.3%.

Thanks to its open economy and bilateral, regional and multilateral trade agreements, Chile presents an expanded foreign trade and a growing competitiveness. Also, its “stable and transparent legal framework, particularly relating to foreign investment, is a major factor contributing to its attractive business environment. Non-discriminatory and non-discretionary rules are embodied both in the 1980 Political Constitution and in the Foreign Investment Statute” (BUSINESS MONITOR INTERNATIONAL, 2013).

7.2. PEST analysis

7.2.1. Political landscape

Within Latin America, Chile is considered as one of the most stable and democratic states. “The country is ruled by the center-left coalition led by President Michelle

Bachelet. The incumbent government's popularity is strong, which is expected to increase the chances of passage of bills" (MARKETLINE, 2014).

There is no evidence of active terrorism in Chile, and the underground leftist movement that emerged after the right-wing military coup of 1973 has all but disappeared from domestic politics. "Despite reports of increased crime levels, the occurrence of serious offences remains relatively low. Chile – particularly the capital, Santiago – is still considered one of the safest countries in Latin America" (BUSINESS MONITOR INTERNATIONAL, 2013).

Chile has achieved much in terms of improving standards of living among its people. The "Concertación", nowadays "Nueva Mayoría", continued the liberalized economic policies adopted in the 1980s, during its governance between 1990 and 2011.

"Chile ranked the highest in the South/Central America and the Caribbean region in the Heritage Foundation's and the Wall Street Journal's Index of Economic Freedom 2014, and has been considered a regional leader for over a decade. The country was recognized as the seventh freest economy in the world with a freedom score of 78.7, which is above the regional average score of 59.7" (MARKETLINE, 2014).

7.2.2. Economic context

Chile is considered a regional leader in terms of competitiveness, and its strong banking system is also viewed as strength. The country recovered impressively from the global financial crisis in 2008-2009 and devastating earthquake in February 2010. It is rich in copper, a highly sought-after commodity and the main driver of export growth. "Prudent fiscal and monetary policy execution in recent years, based upon cooperation with international financial institutions, has contributed greatly to macroeconomic stability and growth" (BUSINESS MONITOR INTERNATIONAL, 2013).

However, the dependence on commodities has left the economy vulnerable to fluctuations in copper prices, and the low productivity is an issue that needs to be address by policy makers.

It is expected that private consumption will become a more important growth driver, while copper exports role will decline. "Until that transition occurs, Chile will continue to rely heavily on commodity export earnings, a significant structural weakness" (MARKETLINE, 2014).

7.2.3. Social context

Chile has a population near to 17 million (2012), with an 86.6% living in urban zones. From the decade of 1970 the born rate has presented a considerable decreasing, reaching only 14.28 births per 1,000 habitants, similar to European countries (IBARRA, 2013).

Life expectancy has increased considerably and currently stands at 82.2 years for women and 76.1 years for men, which combined with low birth rates leads to an aging of the Chilean population. The levels of education and social action aimed at a global homogenization are increasingly developing a population more able to face the future challenges (IBARRA, 2013).

“Chile’s robust GDP growth during 1987-2013 was accompanied by poverty alleviation. Successive governments have introduced innovative programs, which have helped the country reduce poverty levels. However, inequality of income in Chile remains high” (MARKETLINE, 2014).

The country has a large middle class, which is bigger than most other Latin American economies. This means a population with access to repeated purchases and credits, which provide high consumption possibilities to drive economic growth, apart from shielding the economy from fluctuations in export led growth.

7.2.4. Technological stage

“Chile has been ranked higher than its Latin American counterparts in the 2014 Networked Readiness Index with a score of 4.61, reflecting its technological progress. The Ministry of Economy launched a program called Start-Up Chile, and further modified the R&D laws in 2012 to provide fillip to innovation. This program is expected to contribute significantly to innovation in the country. Chile continues to spend a paltry amount on R&D activities, and its intellectual property rights (IPR) enforcement must be enhanced” (MARKETLINE, 2014).

The technological development in the country has been supported by the government, for instance through projects to improve scientific research or massive media (in 2011 the project for national HD-TV transmission was started); as well as the private sector, which has built networks and infrastructure to develop and increase the available technology in the industry and homes.

Table 13: PEST analysis summary

Political	Economic
<ul style="list-style-type: none"> • Stable and democratic state • Considered a safe country • Improved standards of living 	<ul style="list-style-type: none"> • Leader in competitiveness • Vulnerable to copper prices • Private consumption will drive growth
Social	Technological
<ul style="list-style-type: none"> • Aging population • Increased levels of education and GDP growth • Large middle class 	<ul style="list-style-type: none"> • At the forefront in Latin America • Policies to promote innovation • Technology advances supported by the government and private sector

Source: Own elaboration

7.3. Corporate culture

There are a number of attitudes that should be considered while doing business in Chile. The portal for diplomats eDiplomats suggests the following list for consideration:

- The business atmosphere in Chile is more formal than in the rest of South America. Punctuality is generally respected and expected in business. However, be prepared for Chileans to be thirty minutes late.
- Chileans don't like to feel pressured or rushed. Business may be conducted more slowly than in Europe and North America.
- Establish rapport first. Personal relationships are vital to doing business in Chile. Some light conversation is customary before getting down to business.
- Decision-making is centralized and decisions are made at the top level, although all levels have input. Visit top-level executives first. Mid-level executives can follow up on subsequent visits.
- It is preferable to conduct business face-to-face rather than over the phone or via fax. Be prepared to take trips to finish a business transaction.
- It is acceptable, but not yet common, to communicate via e-mail.
- Businesslike behavior with a bit of humor is appreciated. Do not attempt a hard sell approach, and avoid aggressive behavior.
- Expect to be interrupted. This is not considered rude, but rather a way of showing interest and enthusiasm.
- Present a well-organized plan with terms clearly defined and financial obligations and options clearly stated.
- Chileans are straightforward about negotiations. Feelings and emotion are important in negotiation.
- Always get written confirmation of agreements.

8. CONCLUSIONS AND RECOMMENDATIONS

There is a growing demand projected for fishery products in Latin America and Chile is not an exception, with eating habits that include the consumption of processed fish and seafood among all social statuses and geographical regions. This positions the country as an attractive target for foreign companies that, winning a space on it, could be able to expand to other competitive markets within the zone.

Nowadays, it is possible to find three category of sea products in the Chilean market: fresh, frozen and canned. The latest include processed fish and seafood smoked or natural, in brine, oil and tomato sauce. The average Chilean eats about 2.3 kilos of canned sea products in a year, which is considered moderate when compared with fresh products, that present a consumption of about 6 kilos; situation that talks about the high competition among substitutes in the industry.

As in the rest of the world, the leader distribution channel for canned sea products is the MGR segment, which comprises supermarkets and hypermarkets. Here, Ocean Garden has the possibility to find important clients whether selling its brand Hyper Harbor or non-labeled products, such as Walmart, Cencosud or SMU, which dominate the market. These possible buyers can ensure a constant demand for the company products if a good deal is agreed: the potential market for the company is of 669,000 kilos and a value of US\$3.113 million if it enters with the brand Hyper Harbor; and 80,860 kilos and a value of US\$376,270 if it goes as a provider for private brands.

Although attractive, it must be considered that this industry is complex to access, not only because barriers to entry such as capital, legal and regulatory requirements, but mainly because of the fierce competition among brands and canning companies within the industry. In the case of products, San José alone owns almost 50% of the market, and five brands keep a quarter of it; while in the case of canning companies less than 20 dominate the market thanks to the attribution of extraction quotas given by the Chilean State: Orizon S.A, FoodCorp, Camanchaca Pesca Sur S.A are the most relevant players among this group. These high levels of concentration make difficult to any new entrant to earn part of the market, and once the piece is obtained, the efforts to keep it are significant, from the marketing, operational and strategic point of view.

The negotiation process with clients is also important: they count with an elevated bargaining power, but once you attract them there are strong possibilities to keep relations on time if you perform better than the competition. In this sense, a reliable relationship with the product manager is key to successful contracts.

One factor that facilitates the arrival of new players in the Chilean market is the friendly climate for foreign investments. With clear and accessible regulations that do not discriminate foreign companies, plus a FTA signed with China few years ago, Ocean Garden should not have difficulties to export to the country, especially thanks to the elimination of tariffs for products such as the company sells.

Besides, nowadays Chile is considered one of the most stable countries in the region, with a strong democratic system that lacks on corruption and an economy that, even when stagnant, has proved to be one of the most competitive in Latin America. Plus, it counts with a large middle class willing to consume, where the canned products such as the offered by the company are widely accepted.

8.1. Recommendations

As seen, Chile offers an attractive context to develop businesses and it seems viable for the company, but that appreciation might not be enough to venture into the opening of a new market.

In first place, consider the options Ocean Garden has to enter the market: selling its brand Hyper Harbor or supplying non-labeled products for private brands. In both cases we find a concentrated market, with the mackerel as undoubtedly leader.

Even though the market for Hyper Harbor products seems to be more attractive in size and value, it has to be judged the fact that only one brand –San José- possess half of the market and that, during the years, none of its competitors have been able to defeat it. Will Ocean Garden willing to compete in a market where it cannot win? If it does, is it able to develop a local marketing plan enough to satisfy the demand requirements? Do not forget the Hyper Harbor brand is unknown in Chile, and the fact that cultural gaps operate between both countries, so the tastes of consumers regarding physical or psychological characteristics of the products might also be a barrier to sell them.

As to the possibility to sell to retailers with white-label products, even when the market size is lower, it seems like the opportunities for Ocean Garden are bigger, which would be the recommended action for the company. Although supermarkets already have suppliers for their canned fish and seafood products, if it is able to convince them, it might mean a more feasible entrance for Ocean Garden's product to the Chilean market, with a captive demand. In this case, it would be the buyer itself the one who could help the company to reduce the cultural gaps of the products, facilitating the positioning. It should be considered that assessing a less sizable player could give the company the experience in the local environment to negotiate and penetrate the market, as the negotiation processes are standardized within the segment.

This is why it is proposed to go for SMU, not only because it is the third biggest supermarket in Chile, situation that puts Ocean Garden in an affordable position; but also because it already is importing canned mackerel from China, showing a disposition to trade with foreign companies, and buying seafood to a minor Chilean canning company. In this sense, Ocean Garden has the possibility to replace some of the current providers or to deliver a complete service to SMU, by offering a diverse number of products through only one provider; which could be also cheapest for the supermarket, as currently the reference price for a box of canned mackerel is more expensive in Chile than abroad (recall the US\$17 for a Chilean product versus the \$15 of Ocean Garden).

Now, regarding to the benefits derived from this new business in Chile, a revenue analysis needs to be done in the context of the global activity of the company. Recall the projections are to be made based on the potential to establish a solid performance to gain market in the whole region. In order to do this, official contact should be made to obtain numerical data from the supermarket to run the analyses.

Considering all these, it would be recommended to address some required steps before deciding if enter the Chilean market to sell to private brands, which should include:

- 1) Check if the company meets the requirements of the Chilean State to introduce goods in the country: base the analysis on the documentation provided. If any doubts emerge, the consultant is able to ask Sernapesca executives for help.
- 2) Start the contact process with the product manager of SMU in charge of preserved food: the first approach can be made through email and/or through a representative in Chile; it is important that the person in charge of this could be the same through all the negotiation process, as this is a sign of trust and respect among Chilean executives.
- 3) Analyze if the company is competitive when compared with the current provider: check the quantity of products bought by SMU, the capability of the company to supply and any special requirement from the buyer.
- 4) Run a 5-year financial projection and a VAN analysis: this is going to define if the project is favorable to the company in a long term.
- 5) Prepare samples and brochures to be delivered to Chile as part of the testing process: consider the all the sizes and items to be offered, do not forget to include prices.
- 6) Negotiate which products could be sold to SMU (it is recommendable to analyze the possibility to bundle mackerel with some mollusk to gain space as sole provider), and the terms of the agreement: allocation costs on distribution will be key.

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10. APPENDIX

Appendix A: Socio Economic Status in Chile

The following description of Socio-Economic Statuses in Chile has been defined by the Chilean Association of Companies of Market Research (AIM Chile, Asociación Chilena de Empresas de Investigación de Mercado), in order to “distribute the population in segments based on its acquisition and consumption power, its quality of living, cultural and educational level and lifestyles” (AIM, 2008).

To do so, the Association considered economic, social, flow and stock indicators, which resulted in are seven SES in Chile which are named in capital letters (A, B, C1, C2, C3, D, E), grouped at the same time in three levels.

1) High Level: A-B-C1

- Accounts for 7% of the population. The model applied for classification social fails to adequately discriminate within this group.
- Most of them concentrated in the capital.
- With monthly family income around US \$ 20,000.
- You cannot access them directly in their homes.
- There can afford all the luxuries and enjoy all the comforts of modern life.

2) Medium Level: C2 – C3

- Middle and lower-middle population, accounts for 36% of the Chilean population.
- Average monthly income between US \$1,400 and US \$ 2,500.
- They can meet needs for food and clothing, in the case of C2 also housing and education.
- Generally their savings capacity is scarce.

3) Low Level: D - E

- Considered the low level, concentrates 57% of the population. The E level is considered extreme poverty.
- The monthly income ranges from US \$ 200 to US \$ 750.
- Households depend on the contribution of a family member, sporadic income or direct state subsidies.
- Although low income, companies focus them as consumers based on its concentration; except in Group E, which are rarely considered in market research.

Appendix B: Average price for a kilo of canned fish, 2014

The data of IPC has been obtained from the Central Bank of Chile (www.bcentral.cl), being 3% in 2013 and 5.1% in 2014.

$$\text{Avg. price 2014} = \text{Avg. price 2012} * (1 + \text{IPC 2013}) * (1 + \text{IPC 2014})$$

$$\text{Avg. price 2014} = 4.26 * 1.03 * 1.051$$

$$\text{Avg. price 2014} = 4.61$$

Appendix C: Products present in the marketplace in Chile

Table 14: Canned fish/seafood in the marketplace¹³

Product	Type	Brand	Weight (gr.)	Reference Price (USD)
Juliana clams	in Brine	Robinson Crusoe	530	3.12
Clams	in Brine	Angelmó	192	2.79
		Jumbo	425	7.19
		Robinson Crusoe	190	3.05
			425	7.95
Mackerel	in Brine	Coliseo	425	1.52
		Colorado	425	1.58
		Pacífico	425	1.69
		Lenga	425	1.56
		Lider	425	1.51
		San José (low sodium)	425	1.76
			425	2.03
		Única (low sodium)	425	1.53
			200	1.00
425	1.75			
Sardines	in Oil	Deyko	125	1.00
		Robinson Crusoe	125	1.34
		San José	125	0.95
		Van Camp's	425	2.96
		Vigilante	120	1.86
	in Tomato Sauce	Deyko	125	1.00
		Jumbo	425	2.68
		Robinson Crusoe	125	1.42
		San José	125	0.96
		Van Camp's	425	2.96
		Vigilante	120	1.69
		Única	200	1.50
	Smoked	Rügen Fish	110	3.39
Salmon	in Brine	Jumbo	170	3.12
		Robinson Crusoe	170	3.46
		Selección	170	3.03
	in Oil	Jumbo	170	3.12
		Robinson Crusoe	170	3.46
		Selección	170	3.03
	Smoked	Selección	170	3.03

Source: Own elaboration

¹³ Prices have been converted using an exchange rate of US\$1=CLP\$590 (same as in the beginning of the study)

Appendix D: Political map of Chile

Figure 13: Political map of Chile



Source: mapsofworld.com

Appendix E: Contacts made

During the development of this consulting project, executives of the three main supermarkets were interviewed, both in person and remotely (emails, phone calls). These conversations had as objectives to gather more information about the way the industry and the businesses inside it work, and to establish a first contact to introduce Ocean garden's products.

According to this, six executives were contacted: three product managers from Walmart, two assistant managers at SMU, and one head planner at Cencosud. They asked to remain anonymous in this study.

Among the main questions discussed were:

- Negotiation process for the introduction of branded and private-label products.
- Main issues to consider when buying a product, from the quality and regulations point of view.
- Buying cycles
- Roles of the product manager
- Sales volume in the industry
- Steps to introduce a private-label product

In the case of SMU and Walmart it was suggested to have a new meeting, but this time as seller and not as consultant. This supposes an incipient interest into know better the products offered by Ocean Garden, and the need of counting with samples and brochures from the company, which have not been sent yet.

Appendix F: Allocations of costs to buyer/seller according to Incoterms 2010

Table 15: Allocation of costs (CIF, FOB)


Costs	FOB	CIF
Export customs declaration	Seller	Seller
Carriage to port of export	Seller	Seller
Unloading of truck in port of export	Seller	Seller
Loading on vessel in port of export	Seller	Seller
Carriage (Sea/Air) to port of import	Buyer	Seller
Insurance	Buyer	Seller
Unloading in port of import	Buyer	Buyer
Loading on truck in port of import	Buyer	Buyer
Carriage to place of destination	Buyer	Buyer
Import customs clearance	Buyer	Buyer
Import taxes	Buyer	Buyer

Source: Incoterms

Appendix G: SIPP form sample

Figure 14: SIPP form sample

SIPP Diciembre 2011



Nº Autorización: _____

Fecha de ingreso mercancía: _____

Fecha de autorización final : _____

Solicitud de Ingreso de Productos Pesqueros (SIPP)

A. Antecedentes de la importación

Nombre del exportador:	País de procedencia ^(*) :
Puerto de embarque:	País de origen:
Puerto de ingreso en Chile:	Identificación medio transporte:
Nombre Importador:	Agencia de Aduana:
Rut del Importador:	Contacto del Agente:
Dirección Importador:	Factura exportación ^(*) :
Teléfono/email Importador:	

B. Identificación del ingreso

<input type="checkbox"/> Recurso o producto importado destinado a consumo nacional	
<input type="checkbox"/> Materia prima importada destinada a transformación y posterior exportación	
<input type="checkbox"/> Recurso o producto importado destinado a posterior exportación sin transformación en Chile	
<input type="checkbox"/> Reingreso de recursos o productos chilenos por rechazo	Nº Nappex
Razones del Rechazo:	
<input type="checkbox"/> Reingreso de recursos o productos chilenos por Recall	Nº Nappex
Razones del Recall :	
<input type="checkbox"/> Consumo Humano	<input type="checkbox"/> Consumo Animal
<input type="checkbox"/> Carnada	<input type="checkbox"/> Otros

Especie(s) Nombre común y científico:
Nº cajas o sacos:
Kilos netos / Kilos brutos:
Área de Pesca o centro de cultivo de origen:
Nº y nombre del establecimiento elaborador en origen:
Tipo de tratamiento y presentación:
Fechas de elaboración:
Código arancelario inicial:

Source: Semapesca

Appendix H: Certificate of legal origin

Figure 15: Certificate of legal origin sample

Competent Agency Logo	CERTIFICATE OF LEGAL ORIGIN	N° Certificate		Exclusive use SERNAPESCA																																								
<p>1. AQUATIC RESOURCES</p> <p>I hereby certify that the aquatic resource identified herein and under the described conditions was obtained by individuals authorized to engage in fishing activities in accordance to the standing national and international fisheries regulations applicable in their country of origin.</p>																																												
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Source: Sernapesca