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The Rapid Rise of Supermarkets in Chile: Effects on Dairy, Vegetable, and Beef Chains

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Focusing on the recent expansion of supermarkets in Chile, from large to medium and small cities and across income strata, this article analyses the driving forces behind the process, including the extent and limits of concentration and foreign firm participation. Supermarkets' procurement practices are examined in terms of their technological, organisational, management, and financial impact on traditional retailers, suppliers, processors and producers in the dairy, horticulture and meat chains. Public policies are proposed to expand the access of small and medium stakeholders in those chains to the opportunities opened directly and indirectly by supermarket expansion, as well as to limit and reduce the harmful effects of the process.

Chile was an early adopter of supermarkets in the 1970s and 1980s, but on a limited scale and restricted mainly to upper-income areas in the largest cities, the first supermarket having opened in Santiago in 1957. Supermarkets spread rapidly at a rate of 4.5% per annum during the 1990s, alongside the rapid economic growth rates experienced in Chile during the decade, to achieve 62% of total food retailing in 2001. Their total sales in 2000 amounted US$4.6 billion, with a 50% share of food retailing. An annual investment of about US$200 million (extrapolating from actual investment during the period 1997-2002) fuelled this rapid expansion. During the decade, supermarkets also extended beyond the high-income areas into middle and even working-class neighbourhoods, and into medium-sized cities and even rural towns.

The form that this explosive development has taken in Chile, and its effects and impacts in upstream parts of the food system, are two previously unexplored issues which are discussed in this article. It focuses on three agrifood chains: dairy (as exemplified by UHT milk, cheese, and yoghurt), fruit and vegetables (potatoes, tomatoes, fresh corn, and apples) and red meats. These products have been chosen because: they involve large numbers of producers (small, medium and large) and traders, their main markets (apart from apples) are domestic, and they represent some of the more dynamic sectors of Chilean agriculture, not counting export products. For these reasons, public policies over the past 20 years or so have assumed that these products could be 'best bets' for the development of small and medium-sized farmers and traders. Thus, it is important to understand whether, with the advent of

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supermarkets as main players in food retailing, these products and agrifood chains continue to offer significant opportunities for these sectors of rural societies, or if these avenues have closed down or, on the contrary, expanded.

We first present the data and methods of the study on which the article is based. We then describe and analyse the main patterns in the development of supermarkets as well as their determinants, followed by consideration of the effects of these patterns on other stakeholders in the traditional food chains. Finally we discuss the implications for public policy.

Data and methods

This study was commissioned and funded by the Office of Planning and Agrarian Studies (ODEPA) of the Chilean Ministry of Agriculture (MINAGRI). Secondary data on patterns of supermarket development were obtained from the websites and official documents of the Chilean Association of Supermarkets (ASACH), ODEPA, MINAGRI, the Chambers of Commerce, the National Statistics Institute (INE), and a number of meat, dairy and fruit and vegetable industry publications. Representatives from all of these organisations were also interviewed extensively by the authors.

Primary information and data were obtained from interviews with: consumers in supermarkets and traditional *ferias libres* ('free fairs' or street fairs) in high, middle- and low-income neighbourhoods in Santiago; supermarket owners, general managers and other senior managers, and procurement managers in large (Santiago) and intermediate cities (Osorno and Puerto Varas) and small towns (Purranque and Frutillar); traders in *ferias libres* and wholesale markets in Santiago; managers of several dairy co-operatives and meat packaging firms, small meat store chains and individual small stores in Santiago and Osorno; wholesalers of tomatoes, potatoes, apples, and meat; and large, medium, and small farmers and officials of local, regional, and national farmers' organisations. Other key informants, such as experts on the dairy, horticulture, and meat sectors and analysts of the supermarket industry, were also interviewed.

An exploratory survey was conducted of 250 consumers in different (by income) neighbourhoods in Santiago, focusing on their reasons for preferring different types of retail outlets for different types of products. The survey was meant only to raise issues for further research and is not representative of any particular population. Another survey was carried out with top managers of the procurement departments of the five main supermarket chains in the country (representing about 50% of total sales); this enabled us to document and quantify the procurement strategies, practices and key criteria of the main supermarkets. The study took place from November 2001 to the end of April 2002.

Patterns and determinants of the rise of supermarkets in Chile

Overall growth and its determinants in the 1980s and 1990s

Table 1 shows that the average annual growth rate of supermarket sales during the past decade has outpaced the rate of growth of the economy as a whole, of commerce, and of private consumption. Between 1996 and 2001, supermarket floor space expanded by two-thirds, to 992,000 m^2. Although growing fast, annual supermarket sales per capita were only around US$300 in 2001, compared with $2,800 for the United States (Pérez, 2001), and floor space per capita ($52m^2$) was seven times and three times smaller than that in the USA and Spain, respectively, although higher than in Argentina (50 m^2), Mexico ($46m^2$) and Brazil (36 m^2) (Ostalé, 2001).

Table 1: Economic indicators and growth of supermarket sales, 1990-2001

Years	GNP growth rate (%)	Commercial growth rate (%)	Private consumption growth rate (%)	Supermarket Sales Index
1990-94	7.33	8.84	8.09	9.14
1995-9	5.64	6.71	5.74	8.55
2000-01	4.57	4.28	3.63	6.92

Source: Pérez (2001).

There are around 100 supermarket chains in Chile (Stanton, 2001); in 1995, about a third of the stores belonged to one chain (Blabey and Hennike, 1997), a proportion which in all likelihood has increased significantly since then. Only four can be considered large, i.e., their sales amount to 5% or more of the annual sales of the industry. Three of the large chains (D&S, Jumbo and UNIMARC) combined represent 41% of the market, and are fully owned and controlled by Chilean capital (in all cases, holdings closely tied to a single family). The fourth large chain, Santa Isabel, is jointly owned by the Dutch multinational Royal Ahold and the Uruguayan/Argentine group Velox (the latter started Disco in Argentina). The Chilean supermarket sector is quite concentrated: together, the four big chains control 52% of the sector.

A second group of chains is made up of eight groups whose individual sales represent between 1% and 4.9% of the total. This group includes the French company Carrefour, which has recently started expanding into Chile. Together, these eight chains command 29% of the Chilean supermarket sector. Foreign-owned firms (Santa Isabel and Carrefour) control 13% of the market, much less than in most other Latin American countries.

The growth of the supermarkets has occurred at the expense of the traditional neighbourhood-based retailers, as shown in Table 2. It should be noted that the rates of loss of small stores accelerated over only five years. The table shows an average loss of 22% for the seven sectors, with the fastest losses in milk and dairy and cold cuts and roast meats (which in five years lost a quarter of all stores) and the lowest among fruit and vegetables shops (17%). Assuming the same for the second half of the 1990s, one can estimate a loss of about half of the small stores within a decade, even faster than in Argentina.

What were the determinants of the rapid overall growth of supermarkets in Chile? On the demand side, the main factors were similar to those observed in Europe and the

United States in the mid to late twentieth century: namely, urbanisation (the urban

Table 2: Loss of traditional food and beverage retailers (number of shops), 1991 and 1995

Type of shops	1991	1995	Loss (%)
General food	49,347	38,921	21
Beverages and liquor	9,326	7,390	21
Meat	6,812	5,329	22
Cold cuts and roast meat	977	730	25
Fish	936	730	22
Milk and dairy products	251	189	25
Fruit and vegetables	7,683	6,266	17

Source: INE (1991 and 1995).

population increased from 75% to 86% between 1970 and 2001), with the consequent growth of the supermarkets' market catchment areas; the entry of women into the workforce (2.8% increase per year between 1989 and 2000), with the increasing opportunity cost of their time leading to their going for both convenience shopping and processed foods to save cooking time; very rapid growth in real average per capita income during the 1990s (average of 9% per year between 1987 and 1998), leading to greater demand for non-staples and processed foods (Bennett's Law), and greater availability of refrigerators (52% and 82% of all households in 1987 and 2000, respectively); and rapid growth in families with cars (by 33% in the four years up to 2001).

There are also supply-side explanations. Trade liberalisation since the early 1980s made it easier and cheaper to import food and non-food products, which implied economies of scale (payoff and possibility of holding inventories of many goods, favouring supermarkets over small stores).

At the same time, there was a drastic reduction in the regulations for foreign direct investment, although, compared with Argentina, Mexico and Brazil, the importance of foreign capital was less in the expansion of supermarkets in Chile. One can only speculate that the reason for this was that in the 1990s foreign firms prioritised their entry into those much larger markets. In addition, during that decade Chilean companies were themselves at their peak, aggressively expanding into other countries, for example competing successfully against some of the largest firms in the world for the control of electricity distribution in Buenos Aires.

Differentiated growth patterns and their determinants

The conventional wisdom is that supermarkets in Chile are a phenomenon of big cities and high and medium-high income neighbourhoods. This image is still correct, but is becoming increasingly less so.

Supermarket penetration into the provinces started when the medium-sized chains (such as Montserrat) were pushed out of Santiago and into the largest provincial cities by the big four competitors. These medium chains, in turn, either pushed even smaller ones (such as Bigger in Osorno or Korlaet in Antofagasta) into the medium-sized and small towns, or themselves developed formats appropriate to these markets. As an example, in the last two years the small town of Curacaví (about 15,000 inhabitants, the vast majority of them lower-middle and working class) saw the arrival of two rival supermarkets. Both built low-cost warehouse-type buildings, and specialise in staple foods and other basic products. According to the managers of these two small supermarkets, the yearly per capita income of their clients is around US$3600 to US$9000 (compared with the national average of about US$4590), with the customer distribution heavily skewed towards the lower end of the range.

An interesting story is that of the foreign-owned Santa Isabel and Carrefour. Until it was bought by Royal Ahold-Velox, Santa Isabel was a medium-sized chain focused on provincial cities. By the time it was ready to push into Santiago, it found that market too crowded and thus focused most of its expansion effort on Peru and Bolivia. Carrefour came in alone and rather late, and opened four megastores in Santiago, three of them in middle and middle-low income areas, where apparently it has had difficulties in meeting its goals.

Competition over the intermediate provincial cities has become fierce. In Osorno, a medium-sized city of 150,000 inhabitants in the South, three supermarkets dispute the territory on or around the main public square. In nearby towns such as Puerto Varas or Purranque, other chains like Wymeister and Pool are opening new stores each year.

The upshot is that at a national level (January 2002), there were 23 'megamarkets'[1] (74% in the capital city) and 631 supermarkets (28% in Santiago). Overall, 70% of the supermarket and hypermarket stores and 53% of sales were outside Santiago, where 60% of the population resides.

The other challenge to the conventional wisdom is the fact that supermarkets are starting to penetrate into markets with clients poorer than the middle class. This is, of course, immediately suggested by comparing the share of the middle and high-income classes in the population (about 40 %) with their share of the retail market for combined food and non-food products (62%). Within Santiago, the medium-low and low-income neighbourhoods (86% of the city's population) have 68% of the stores and 61% of total sales.

Format differentiation is a key strategy for market segmentation. For example, in the case of D&S, the largest chain, it maintains four formats in Santiago: lower-price megastores or hypermarkets, each of which targets large sections of the city segmented by income level (Lider and Lider-Vecino); neighbourhood-based supermarkets which specialise in perishable products and target working women with little time to spend shopping (Ekono),[2] and neighbourhood-based supermarkets for higher income areas (Almac).

There has also been a process of supermarkets adding extra services over time and across strata. This has been used, on the one hand, to edge out non-supermarket

1. Over 1 hectare in floor space per store.
2. To target this segment of middle-class working women, D&S is considering the establishment of Ekono stores in the subway stations.

competitors, and at the same time to increase the attractions for consumers by providing more of a one-stop shopping experience and adding value to products; fresh bread bakeries plus bakery chains within supermarkets have almost edged out traditional bakeries in Santiago. The same thing has occurred with fish markets. Food courts and prepared dishes, automated banking, and photography services are becoming standard components of supermarkets.

Consolidation

Four chains (three domestic and one foreign) have 52% of the market in 2002. However, the pace of consolidation seems to be slower in Chile than in other countries, perhaps because of the strong competition that is taking place between the biggest chains themselves, as can be seen in Table 3. Between 1996 and 2002, two of the four main chains gained market share: D&S more than 10 percentage points, and Jumbo 2%. After being bought by Royal Ahold-Velox, Santa Isabel lost 3 percentage points of market share, while UNIMARC[3] had the steepest decline (4 points). The net effect is a relatively small combined gain by the four large players of close to 5 percentage points of market share.

Table 3: Market share by annual sales (% of total supermarket sales)

Chains	**1996**	**2002**
D&S (domestic)	19.2	29.8
Santa Isabel (foreign)	13.3	9.9
Jumbo (domestic)	6.3	8.3
UNIMARC (domestic)	8.4	3.8
Others	52.7	48.2

Source: ASACH (www.asach.com).

In Chile one is not (or not yet) witnessing a rapid increase in the share of foreign capital in the sector (apart from the abrupt jump when Royal Ahold entered by buying Santa Isabel). We have some hypothetical reasons for this. First, we already noted that the domestic chains have had relatively more access to capital than their counterparts in Brazil, Mexico and Argentina, allowing them to open new stores rapidly in most of the premium locations. There are also some company-specific stories, such as that of D&S, which is reputed to have foreseen the potential menace of foreign competition and made heavy investments since the mid-1990s to stave off the attractiveness of this influx. Thirdly, there is the relative resistance of regional chains in Chile, perhaps based on their strong identification with local market niches; the market share of three of the top four chains in the provinces (Jumbo has only recently started to tackle this market) has remained essentially constant over the five years up to 2001 (Ostalé, 2001).

3. At the time of writing, the holding corporation which owns UNIMARC is seeking to sell its supermarkets, reportedly to Jumbo.

These consolidation considerations will be important in the next section, as the smaller chains appear to have different procurement practices. Their resistance to acquisition implies the persistence of those practices, opening up opportunities for programmes and policies targeted to suppliers that take advantage of these practices. Unpredictable as the patterns are, equally unpredictable will be the enduring success of programmes meshed in with them.

Effects 'upstream in the chains' – on processors, wholesalers, and farmers

This section will discuss the effects of the expansion of supermarkets on agrifood chains and their participants, using the examples of fruit and vegetables, red meats, and milk and dairy products.

Fruit and vegetables

Chileans spend approximately 27% of their income on food, and 4% on fruit and vegetables (77% of which are consumed fresh). Chilean households traditionally demand a higher quality of fruit and vegetables as compared with other Latin American consumers. There are two main fruit and vegetable marketing systems: the traditional chain and supermarkets.

The traditional chain starts with approximately 120,000 predominantly medium-sized and small farmers, who sell most of their produce in the wholesale markets of Santiago either directly or through small traders (intermediaries). From the wholesale markets, produce reaches consumers through neighbourhood-based fairs (*ferias libres*) and small shops. The importance of *ferias libres* is in inverse proportion to the income level of the neighbourhood.

Supermarkets purchase their fruit and vegetables from medium and large-scale farmers and, increasingly so, from supply firms (medium-sized and large farmers often also own supply firms). In contrast to most other Latin American countries, the participation of supermarkets in the retailing of fruit and vegetables is quite small, ranging from 3% in tomatoes to 9% in apples. This is far below their 50% command of overall food retailing. According to some sources (*El Diario*, 2001), 70% of fruit and vegetables are sold to final consumers in the *ferias libres*. Fruit and vegetables represent only 4% of total sales of supermarkets. From their point of view, these products are commercially attractive only because of their 'externalities'; they contribute to the quality image of specific stores within a given supermarket chain and as such can reinforce client loyalty.

We conducted an exploratory survey of 250 individuals in supermarkets and *ferias libres* in three different neighbourhoods of Santiago (Las Condes, high-income; Ñuñoa, middle-class; Conchalí, low-income). We asked consumers leaving supermarkets how frequently they bought their fruit and vegetables in this type of store. 98%, 81% and 10% of these high, middle- and low-income consumers 'always or almost always' shop for fruit and vegetables in supermarkets.[4] Both medium- and high-income consumers do so mainly (47% and 49%, respectively) because of quality of service, while those who

4. This is only an exploratory, non-representative sample survey.

prefer to shop in *ferias libres* cite quality of products[5] (50% and 55%, respectively). Working-class consumers by far prefer the *ferias libres* for reasons of cost and quality of produce.

More importantly, most of the middle and low-income consumers that we interviewed strongly reject the concept of quality that supermarkets tend to emphasise. To them, fruit and vegetables in the supermarkets are not 'fresh', in the sense that they have been refrigerated and kept in storage for longer periods, while the produce found in the *ferias libres*, in their opinion, is more 'natural' and has not been put through any sort of processing.

From this exploratory survey, one might explain the low participation of supermarkets in the retailing of fruit and vegetables on the grounds that, in the eyes of many consumers, the *ferias libres* continue to hold an important advantage in terms of price, quality and a range of price-to-quality ratios. If this hypothesis is correct, one can see a contradiction between the procurement practices of supermarkets (tending towards standardisation, longer-term storage and processing of produce) and the preferences of many consumers.

Increasingly, supermarket chains are purchasing their fruit and vegetables through centralised distribution centres which supply not only Santiago, where they are located, but all the stores in all cities and towns in the Central region of the country. This set-up imposes a large entry barrier to many suppliers, because of reasons of scale. The top five supermarket chains, combined, work with no more than twelve suppliers of fresh corn, eight for tomatoes and seven for potatoes. Hundreds of small traders who used to supply one or two supermarkets have been displaced.

The new suppliers are firms which can consistently deliver large quantities of standard-quality produce. To achieve this, they have had to implement rather basic technical innovations to meet the packaging and labelling standards of supermarkets. They have also had to organise procurement networks of regional or national scope, with the concomitant changes in logistics, transportation, storage and basic cleaning, sorting and grading.

The relationship between the supermarkets and their suppliers is not regulated by formal written contracts. Negotiations take place within the limits set by standard practices to which all supermarkets adhere, including: a fee charged by the supermarket to the supplier for the benefit of having accessed this market, known as 'rapel' (3-8% of the value of the produce); a 30-90 days waiting period before payment (meaning that the supplier must finance not only the net value of the produce but even the Value Added Tax that the supermarket must pay before the 10th day of each month); fees for shelf space; fees for special promotions and discount sales; and discounts for produce that rots or deteriorates before it is sold. Despite all these harsh conditions, most of the many suppliers we interviewed value this market over other options, because of its stability and because, after all the charges and discounts, the net price tends to be equal to or slightly better than that offered by wholesalers.[6]

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5. 'Quality of produce' also varies across income strata. To high-income consumers, quality is associated with 'exotic and boutique' products, while low-income buyers associate quality with 'freshness' and 'ripeness'.
6. They also cite a number of problems with the alternative buyers: wholesalers are said to be unscrupulous, often not paying at all if prices fall; relations are always short-term; there are often disputes over the

Product standards are specified, but, in the case of fruit and vegetables, they refer almost exclusively to appearance and packaging. There are no standards whatsoever related to sanitary condition, chemical residues, or traceability. The varieties demanded by the supermarket are those prevalent in the country. Even the appearance standards are not particularly difficult to meet; as already mentioned, many consumers would argue that the produce found in the *ferias libres* is equally or even more appealing. In short, the supermarkets have adopted a policy of buying reasonably good quality fruit and vegetables, but well within the limits of what is already offered in the overall market. Hence, they have had little or no impact in terms of stimulating technical change at the farm level.

Those individual farmers or farmers' groups that have tried to access the supermarkets directly share the same conditions as the non-producer suppliers. Hence, only a few large farmers (who may also be owners of the supplier firms) and a few farmers' groups and organisations can still manage to sell direct to the supermarkets.

In conclusion, it can be said that the main upstream effects of the rise of supermarkets on the fruit and vegetables chains are the following: a massive displacement of small traders who used to deliver direct to one or two stores; and an indirect effect on some quality attributes (appearance). As one of the top managers of the main wholesale market of Santiago told us, they – and their primary clients, the *ferias libres* – have been forced by the competition with supermarkets to raise and sharpen their quality standards, while keeping prices low, knowing that it is here that they still have an important competitive advantage.

Beef

Per capita apparent consumption of red meat in Chile is 23.3 kg (in 2001). Of the 350,000 tons consumed annually, about 45%-60% is sold through supermarkets and between 20% and 35% through butcher's shops. The types and qualities of meat cuts were established by law in 1994, spurred not by supermarkets but by the industrial packing firms. The implementation of this law with its new grades and standards liquidated a large number of small slaughterhouses.

The beef chain starts with about 150,000 producers who sell their cattle to local fairs, traders, and to the packing firms (seven of which control about 40% of the market). These packing houses supply the supermarkets (and increasingly also the restaurants, small shops, and chains of butcher's shops, rapidly displacing the local fairs and the traditional independent traders).

Red meat is an important supermarket product. Meat gross margins are around 15% (higher than the average for food and non-food products), and meat sales represent 9% of total sales. With the single exception of D&S (the largest supermarket chain and the country's number one meat retailer), which has followed a strategy of vertical integration, most of the other chains purchase their meat ready to sell from one or more of the packing firms.

The relationship between supermarkets and packing houses is strongly influenced by imports of meat from Paraguay, Argentina, Brazil, and Uruguay. Imports by

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weights and measures; and wholesalers refuse to pay in full the 18% VAT, thus imposing an extra cost for the supplier.

supermarkets range between 40% and 80% of total meat sales, depending on the supermarket chain and the time of year. Supermarkets are the largest importers of meat in the country, and, as such, they exert a constant price pressure on packing houses and producers. Quality is not an issue, as imported meat is of regular to low quality (top quality meat from Argentina or Uruguay is too expensive for the Chilean market and in any case is exported to the northern hemisphere).

Meat imports initiated important technological changes in marketing. To start with, they led to the rapid development of a cold storage chain, which forced the closure of hundreds of independent butcher's shops which could not afford the investment. However, several medium and large chains of meat stores did adopt the new technologies, along with other supermarket marketing practices such as good lighting and pre-packed cuts.

With respect to product quality grades and standards, the supermarkets follow those established in the meat law of 1994, which are applicable to the whole industry and to all retailers. These grades are considered rather elementary. According to all the experts interviewed, price and 'tenderness' are the only two criteria to which the consumer pays any attention.

However, there are early signs that this status of meat as an undifferentiated commodity is starting to change. A few supermarkets (and meat shop chains) serving high-income consumers have recently begun to offer top quality meat and fine cuts that go above and beyond the requirements established by law. Agreements have been signed by one of the main chains, Jumbo, and one of the top packing houses ('Carnes Ñuble'), to develop an exclusive brand specialising in top quality cuts packaged under advanced controlled-atmosphere technology. Santa Isabel is also developing a strategic partnership with the largest packing house, with the objective of becoming a global supplier to the Royal Ahold sourcing system.

In conclusion, the direct upstream effects of supermarkets on the red meat chain have up to now been few and limited. Meat imports by supermarkets, in combination with the important changes registered in the meat packaging industry in response to the 1994 law, have caused the demise of hundreds of small slaughterhouses and neighbourhood shops, and have placed a ceiling on farm-gate prices. The recently initiated associations between some of the major supermarket chains and packing firms to develop top quality products, may open a new and profitable market for those (large) cattle growers who manage to become part of these alliances through their ability to produce consistently top quality meat.

Milk and dairy products

Between 1986 and 1998, consumer demand for milk and dairy products increased by 7% per year, spurred by rapidly growing per capita income. The gap between supply and the expanding demand drove prices up and stimulated a doubling of production in the ten years leading up to 1998. There are around 18,000 dairy farmers in the country. Supermarkets were a key actor in this expansion of the milk and dairy sector, as they provided the retail infrastructure and systems for delivering a wide variety of new dairy products to a growing number of consumers across large and small cities and income strata.

Yet, despite its importance, the role of supermarkets in this transformation of consumer demand has been rather passive, as the key actor was the dairy industry, itself globalised and highly concentrated (the five largest firms[7] had a market share of 80% in 2000). The pressure on marketing margins, driven by an increase in the power of retailers, has, however, added to the cost-cutting pressures of the dairy processors and with these their control and co-ordination of the dairy farm segment of the supply chain.

Supermarkets have a commanding position in the retailing of dairy products. Their market share ranges from 22% (cheese) to 40% (UHT milk). With the exception of cheese, where supermarkets deal with a few medium-sized firms which produce the main traditional type demanded by Chilean consumers, all other products are supplied by the industrial dairy firms.

The marketing conditions under which each product of each brand will be displayed in the supermarket are the subject of fierce negotiations. However, supermarkets make next to no demands in terms of quality standards, knowing that the dairy firms themselves, as competitors in the international market, will comply with all the standards required by law or imposed by the preferences of consumers. While dairy farmers of all sizes have had to undergo drastic and rapid processes of technological change, these have been driven by the competition between the large dairy firms that control the industry in Chile. Not even in terms of farm-gate prices do supermarkets have an influence, since these are determined by international prices, as dairy firms are free to import milk whenever domestic prices rise above world market levels.

In short, supermarkets played a key role in making it possible to meet the growing demand of consumers with greater disposable income for more and more diverse dairy products. But the large changes experienced by the milk and dairy chains have been driven almost solely by industrial firms playing according to the rules of international competition.

Conclusion and policy implications

Supermarkets have become the dominant player in Chile's food retail system. The main driving forces of their expansion have been the increase in average per capita income since the mid-1980s, urbanisation, the incorporation of women into the labour force outside the home, and the opening of the economy to foreign investment and international competition. While this process started in the medium-high and high-income neighbourhoods of the largest city, it has now expanded into medium-low and working-class areas and into intermediate cities and even rural towns.

In contrast with countries like Brazil, Mexico, and Argentina, the participation of foreign chains such as Royal Ahold and Carrefour is still relatively small. This can probably be explained by the fact that the large multinationals prioritised those larger markets, as well as the fact that in the rapid growth of the 1990s the domestic corporations had access to abundant financial resources which they used to cope with competition in the most profitable market segments.

While there is an ongoing process increasing the already high concentration of market share, it is proceeding more slowly than in other Latin American countries. At least in part, this is because much of the competition, gains and losses, is still taking

7. Nestlé, Soprole (New Zealand Dairy Board), Parmalat (Italy) and the Chileans Loncoleche and Colún.

place between the largest chains. If one judges by their shopping preferences, consumers appear to be the winners in this process. Millions of them now consistently have access to a wide diversity of standard quality products and services. Working women, in particular, appear to be major beneficiaries.

In the three agrifood chains studied, the main negative effects of the rise and consolidation of supermarkets have been on independent shops and small and medium-sized traders and intermediaries, whose numbers have fallen sharply in the past decade. The former lost because they were unable to compete in price, convenience and diversity of products. The latter were displaced by a new breed of entrepreneurial suppliers, since they could not deal with the implications of the procurement practices of the supermarkets.

Most farmers, however, do not appear to have (yet?) suffered direct negative consequences from the growing importance of supermarkets. In the fruit and vegetable sector, the traditional marketing systems are still predominant and are competing strongly against the supermarkets, apparently because they are better adapted to the preferences of large segments of middle and lower-income consumers. This means that small and medium-sized producers still have their traditional markets more or less intact. In the case of red meat and milk and dairy products, producers have experienced great and often traumatic changes over the past decade. However, supermarkets did not play a major role in causing these changes. They originated in the reorganisation of the industrial links of these food chains in response to trends in international markets and in domestic public regulations.

A common element in all three agrifood chains is that supermarkets have not imposed private grades and standards which could have caused major technological or organisational changes in primary production. In the case of fruit and vegetables and red meat, supermarkets have limited themselves to demanding above-average quality but still well within the limits of what is common throughout the country. In the case of milk and dairy products, the supermarkets simply follow the lead of the major industrial players, in terms of quality and diversity. However, there are a few signs that this may be starting to change, as some supermarkets targeting the highest income sectors appear to be abandoning this rather passive role and starting to develop new top-quality products that undoubtedly will have technological implications upstream.

Another common element is that the low-end traditional markets are shrinking fast. This narrows the marketing options of many small and poor farmers, who not only are losing their traditional clientele but also lack the resources to adjust to the demands of the newer and more sophisticated markets. In the traditional markets, standards are also rising, in part due to the competition of supermarkets. The surviving independent meat stores have adopted some of the commercial practices of supermarkets, and the shopkeepers in the *ferias libres* are very aware that they must deliver good quality at low prices and better services in order to remain competitive.

What recommendations for public policy can be derived from these findings? First and foremost, the growing importance of supermarkets means that they will be increasingly capable of imposing their own conditions in terms of quality, price, consistency of delivery, and terms of payment. To this, one must add the fact that the traditional retail markets are following the supermarket lead in terms of these conditions in order to remain competitive.

Increasingly educated consumers are a major driving force behind this trend. Public policies and programmes, in particular those in support of small and medium-sized farmers, traders, processors and shoppers, must not lose sight of the trend. These actors cannot make the adjustment on their own. They need pro-active public support to achieve, specifically, good agricultural and agroindustrial practices, clean technologies, quality seals and certification, economies of scale through the formation of groups and associations, better sorting, grading, packaging, labelling and transportation, higher productivity and more efficiency.

Secondly, in such sectors as fruit and vegetables, cheese, and meat, where the traditional retailers still control a significant market share, a public objective could be to support their continuation as viable and efficient enterprises, because this leads to more competition in these markets and they provide direct employment for thousands of households. Public programmes should aim at opening up access to financial markets, improving the infrastructure and services of traditional markets such as the *ferias libres*, providing training in order to improve their technologies and business management skills, and new regulations to support the formalisation of their enterprises at low cost and with minimal bureaucratic interference.

A third area for public policy is suggested by the recent examples of strategic alliances between some supermarkets, suppliers, processors and producers. In Chile, this is a new approach. It contrasts sharply with that still prevalent, which can best be characterised as a state of permanent conflict, in which each stakeholder tries to maximise its own benefits at the expense of the others. The problem is that these examples are up to now restricted to large supermarkets, large processors and suppliers, and medium-sized and large producers. The challenge is to expand these emerging practices to include smaller actors, such as provincial supermarket chains, family-owned agroindustries and medium and small producers in the areas where those supermarkets operate. Otherwise, these emerging practices could rapidly become another force for concentration and exclusion in the country's food chains.

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