



# Chile Marketing Report

Prepared for: BA 447 International Marketing  
Prepared by: Ryan Gardner, Elizabeth Smith, and Thomas Bredin

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# Executive Summary

## Objective

The purpose of this report is to present evidence in support of AllStar Brand's expansion into the Chilean market with its Allsmile brand toothpaste. This group believes that Chile offers opportunities for AllStar's business, and seeks to present a balanced view of the strengths, weakness, opportunities, and threats involved in this venture.

## Goals

AllStar seeks to build its brand initially in select Latin American countries such as Chile. Gradually, AllStar will use this entry to expand to Latin America as a whole.

## Solution

To be successful, AllStar must carefully determine its type of entry, target market, product selection, pricing, advertising, and distribution. Successful entry into the Chilean market hinges on AllStar's understanding of the country of Chile and where its products can fit in this important market.

## Company Background

AllStar Brands operates in the United States and Europe, with partnerships in Asia, producing over-the-counter (OTC) drugs and other consumer products. Recognizable brands owned by AllStar include the cold medicine Allround and the soon to be OTC heartburn drug, Zemlef. Furthermore, AllStar consumer products division offers items such as soaps, detergent, and toothpaste. AllStar has been successful in this business,s but the markets it currently operates in have matured and are highly competitive. For continued growth, the board of AllStar feels that Latin America is where AllStar's Allsmile brand toothpaste needs to be.

# Market Background

## Introduction

Chile is stable, democratic, and supports free market trade. It has a developed economy and does not receive any foreign economic aid. It is a narrow country, but it stretches quite far, covering much of the Pacific coast of South America. (Appendix p. 3) Because of Chile's location on the Pacific, it plays a significant role in shipping in South America and for the rest of the world. Chile has the infrastructure, from a transportation and telecommunications standpoint, to support distribution and marketing of Allsmile toothpaste.

## Social

According to 2006 figures, Chile's population stands at 16,134,219. Its population has grown at a rate of 0.94%, which is in the middle of the pack for most Latin American countries. It's urban population is quite high at 84% percent, and heavily concentrated, as 36% are in the three largest cities. (Appendix p. 1)

The infant mortality rate is 8.58 deaths/1000 live births. Life expectancy at birth is 73 years for men and 80 years for women. The birth rate is 15.23 births/1000 population compared with the death rate of 5.81 deaths/1000. Persons 0-14 years of age make up 24.7% of the population, ages 15-64 make up 67.1%, and people 65 years and older make up 8.2%. There are slightly more women than men in the total population, however, this ratio is reversing according to 2006 figures. (Appendix p. 2)

Whites and white-Amerindians make up 95% of the population, with Amerindians at 3% and other groups at 1%. Spanish the primary language spoken in Chile. Literacy is at 96.2% for the total population.

## Economy

With the second highest per capita GDP in Latin America, at \$11,300, Chile has been an example for stable and steady economic growth in Latin America. It's total GDP has grown at a rate of 6.0% and the consumer price index (CPI) has grown at a rate of 3.2%. Of the Latin American nations Chile is considering entering, Chile has the lowest poverty rate, at 18% and a low unemployment rate of 8%. (Appendix p. 1) In terms of household income, the lowest 10% consume 1.4% and the highest 10% consume 46.1%



Chile exports more than it imports (Appendix p. 3). Their largest export partners are the U.S., Japan, China, South Korea, Netherlands, Brazil, Italy, and Mexico. Primary exports include commodities like copper, fish, and paper. Chile's main import partners include Argentina, U.S., Brazil, and China. It's main imports are petroleum, chemicals, telecommunications equipment, and industrial machinery.

The Chilean peso (Ch\$) is the unit of currency used in Chile. Since the early 2000's, the peso has steadily strengthened against the US dollar, going from 634 pesos/USD in 2001 to 549 pesos/USD in 2006. (Appendix p. 4)

## Future Trends

Chile's economy and population are both expected to gain for the foreseeable future. Projected GDP growth is expected to reach 12.5%. (Appendix p. 5)

## Cost Structure

Across the board, Chile is more competitive than the U.S. when it comes to unit costs and comparable with other Latin American countries (Appendix p. 6) Administrative costs

When looking at administrative costs, Chile's costs per SKU are lower than all other countries, on the lower end on a per-channel basis, and in the middle based on per direct outlet. Sales-force expenses for Chile, in total, are higher than other countries. These expenses include sales representative salary, average expenses, and hiring/training. (Appendix p. 6)

## Trade Issues

Chile has a significant advantages when it comes to tariffs and shipping. The country has no tariffs on on trade between the U.S., Argentina, and Brazil. Furthermore, it's tariffs for goods between Mexico, Peru, and Venezuela are the lowest of any country. Shipping costs are also on the lower end of the spectrum except for the U.S. For these reasons, it is recommended that AllStar build a production facility in Chile. This facility not only support growth in the Chilean market, but future expansion into the rest of Latin America as well.

**Table 6**  
**Toothpaste Sales by Country Market, last six years (Millions of USD)**

Country	5 years ago	4 years ago	3 years ago	2 years ago	Previous year	Current year	Sales per capita (USD)
Argentina	122	130	135	132	142	152.6	3.82
Brazil	385	395	390	410	423	454.6	2.42
Chile	59	65	69	78	78	83.1	5.16
Mexico	135	150	175	189	209	228.1	2.12
Peru	23	25	26	28	31	35.1	1.24
Venezuela	23	25	27	22	23	26.3	1.02

Fig. 1

## The Market For Toothpaste

From 2001 to 2006, Chile's market for oral hygiene products increased at an annual rate of 4.0%. (PDF) Toothpaste sales have risen steadily over the past six years in the country and it now has the highest per capita sales of toothpaste in Latin America by far.

# Competition

## Global

In the global toothpaste market, AllStar has several competitors to consider. AllStar currently has 13% of the global market. Its main competitors are B&B with 15%, Caremore with 21%, Driscoll with 10%, and Evers with 7%. B&B Healthcare, with its Britesmile brand, is currently the only global competitor operating in Chile.

**World Toothpaste Producers with Major Brands**

Company Name	World Sales (% of world market)	Brands
AllStar Brands	13	Allsmile
B & B Healthcare	15	Britesmile Bancav
Caremore Company	21	Clean & White Caregate
Driscoll Corp	10	Dentacare
Evers Consumer	7	Eversmile

Fig. 2

## Chile

Along with B&B, there are two Chilean toothpaste manufacturers of note. They are listed as Local 1 and Regional 1. In terms of market share, both are beating Britesmile. Local 1 has 62.3% market share and Regional 1 has 27.1%. Britesmile has 10.5%. Both of the Chilean toothpaste companies focus solely on economy and healthy toothpaste, with Britesmile filling a niche with whitening products under the two SKU's it produces.

# Target Market

After considering Chilean preferences and social characteristics, as well as current competitive conditions, we have made a determination on who we should be targeting.

- Families with children is a segment that has not been catered to in the market. Considering Chile's birthrate and low infant mortality, this is a lucrative segment.
- Young people have shown a preference toward whitening toothpastes. Currently only one competitor offers whitening toothpaste.
- Chileans put a heavy emphasis on price when it comes to their purchasing decisions. While the economy toothpaste market has many offerings already, this market is too large to ignore, and AllStar has the ability to take a significant amount of market share.

Country	Price	Effect	Size	Vehicle	Deliv- ery
Argentina	40.8%	35.9%	17.0%	3.2%	3.1%
Brazil	44.3%	31.4%	17.9%	4.0%	2.4%
Chile	40.4%	34.7%	18.0%	4.5%	2.5%
Mexico	48.0%	29.4%	17.5%	2.9%	2.2%
Peru	51.0%	27.8%	16.6%	2.9%	1.8%
Venezuela	48.7%	28.4%	16.7%	3.9%	2.2%

# Product

## Families - Kids

Based on our market research, we believe a more conservative approach would be the best way to enter the Chilean market. This involves entering the market with a limited number of products, substantially less than we offer in total. We determined that no brand in Chile offered a toothpaste suitable for children. Demographic trends in Chile, such as Low infant mortality and a high birthrate, indicate that the country would be an excellent market for children's toothpaste. Currently, no brands are directed towards the children's toothpaste market. The AllSmile brand can fill this gap. This product would be targeted toward families with children. Unlike most of our other products, it will be gel based, and in a pump. Attributes of the product like gel and pumps make it more expensive to produce, but as you can see in the table below, consumers in this segment overwhelmingly prefer those attributes.

Size			Delivery			Vehicle	
Small	30.0%		Tube	25.0%		Paste	10.0%
Medium	35.0%		Pump	75.0%		Gel	90.0%
Large	25.0%						

## Younger - Whitening

We also found that the current offering of whitening toothpastes targeted towards younger people was quite small. This is another under-served segment that can be taken advantage of.

Size			Delivery			Vehicle	
Small	40.0%		Tube	70.0%		Paste	60.0%
Medium	55.0%		Pump	30.0%		Gel	40.0%
Large	5.0%						



## Families - Economy

As you can see from the current market (Appendix p. 16-17), Chile is well served when it comes to economy toothpaste. However, this segment of the market is too large for us to ignore. AllSmile can be sold for a lower price than competitor's products and grab market share in this segment.

Size		Delivery		Vehicle	
Small	5.0%	Tube	60.0%	Paste	40.0%
Medium	60.0%	Pump	40.0%	Gel	60.0%
Large	35.0%				

Out of the four variations of AllStar's brand Allsmile, there are 24 SKU's that are offered. At entry, AllSmile should only be sold in medium sized products across the segments. Emphasis on value and the overall preference for that size has led use to conclude this would be the best size to offer.

# Pricing

There is \$104 million being spent on toothpaste in Chile. This represents a lucrative market for AllStar. In the economy SKU we are using medium sized tube with paste. This costs \$.50 to produce in the United States. The shipping costs to Chile are 0.030 per average unit. The production costs, if produced in Chile, would be 11% cheaper and the shipping costs would go down to 0.005. The average total cost to produce and ship from the US to Chile would be \$.53 and \$.45. If a plant is built in Chile, the COGS will decrease by 8-10% whenever the production doubles.

The MSRP that the competition is charging varies. Brightsmile charges 852 (Ch\$) for whitening type toothpaste and the local and regional brands are charging 714 (Ch\$) for basic toothpaste. In US dollars, those prices are \$1.53 and \$1.28 respectively. The economy/paste/tube should have a cost of 700 (Ch\$) so that it is cheaper than the local toothpaste but is only about \$.02 less. It needs to be cheaper because AllSmile is directly competing with the local and regional brands. It costs \$.53 to produce and ship the economy/tube/paste. It costs 5% more to produce whitening toothpaste than economy toothpaste, so to produce and ship whitening/tube/paste it will cost \$.56. It should cost 800 (Ch\$), which is \$1.44. It is 25% more to produce kids/pump/gel than economy/tube/paste, so it costs about \$.63 to produce and ship kids/pump/gel. It should cost 830 (Ch\$), which is about \$1.49.

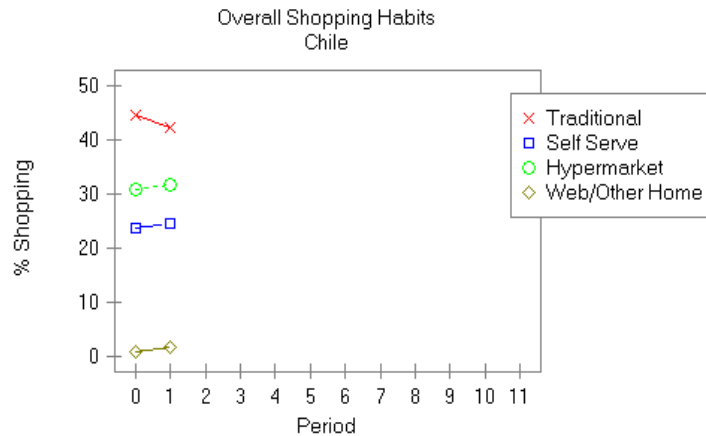
	Argentina	Brazil	Chile	Mexico	Peru	Venezuela
Approx. Cost Reduction	9%	13%	11%	19%	26%	28%

# Distribution

This is a new environment for AllStar, and we lack connections with many of the businesses in Chile. As we are marketing our products to different segments, it will take a hybrid strategy to distribute our product. Initially, this will involve direct channel deals with hypermarkets, but a dependance on wholesalers for most traditional and self-serve stores. As well develop relationships with smaller businesses, we can eventually shift over to direct channels, if we feel it necessary in the future.

The shopping habits of our targeted consumers is mixed and doesn't heavily favor any specific venue. Therefore, AllStar must concentrate on most of these channels equally.

	Younger	Older	Families	Overall
Traditional	27.6%	61.8%	40.8%	42.2%
Self Serve	33.2%	22.1%	21.4%	24.5%
Hypermarket	37.7%	14.9%	35.9%	31.6%
Web/Other Home	1.6%	1.2%	1.8%	1.6%



Another distribution channel AllStar should look into is selling direct to consumers through the web or some other ordering system. Currently, the percent of shopping it makes up is quite small, but we believe early entry using this method we give our brand a head start as it becomes more popular. We will begin selling through this channel some time after market entry and after our brand has been thoroughly developed in Chile.

## Sales Force

A sales force will work with retailers and current customers to keep them current with AllStar's products, promotions, and programs. Along with these duties, they will work on obtaining additional and different accounts, and maintain current industry connections, and affiliations, broadening the brand awareness for AllStar's products.

AllStar should dedicate 3 salespeople to each channel and 1 to wholesale, as that method usually requires fewer people.

## Cost

Sales force costs in Chile are somewhat higher than in other countries. This will be a significant expense at first

### Average Salesperson Cost For Chile (U.S. \$)

Salary/Commission	<b>34.5</b>
Expenses	<b>12.4</b>
Hiring/Training	<b>8.8</b>



## Plant

Building a plant in Chile would allow AllStar to take advantage of lower labor costs, as compared to the U.S., when manufacturing AllSmile. Furthermore, AllStar saves a substantial amount on shipping, as detailed in the section on pricing. Chile provides a convenient location with access to many ports, spanning a significant length of the Pacific, and has a transportation system that will enable our products to reach other Latin American countries, if we choose to do so in the future. Initial capacity will be set at 20 million.



# Advertising and Promotion

Allsmile is in need of ads to promote the toothpaste that is to debut in the Chilean market. We are looking to advertise for Younger/Whitening, Families/Economy, and Families/Kids. Since Allsmile currently has ads available for Whitening and Basic, we can use those to the Chile market. The Whitening ad is targeted toward the group Younger which is what we are planning, however, the ad is in English. The ad will have to be minimally adapted and that will result in a 25% increase in the creative cost for developing a new ad. The second available ad targets Families which also meets our need and unlike the other ad this is already in Spanish so there will be minimal extra costs. That leaves an ad to be created for the Families/Kids. It needs promotion since it will be the only type and target in the market place.

Adapting to language and culture incurs significant cost. But it is necessary that our advertisements are relevant and connect to the Chilean people.

## Decrease in Manufacturing Costs (based on initial 100 million units of production)

	<b>Argentina</b>	<b>Brazil</b>	<b>Chile</b>	<b>Mexico</b>	<b>Peru</b>	<b>Venezuela</b>
Approximate Cost Reduction (relative to U.S.)	9%	13%	11%	19%	26%	28%

Component	Description	Cost
Size	25 gram (small)	-20%
	75 gram (medium)	--
	150 gram (large)	20%
Delivery System	Tube	--
	Pump	10%
Texture	Paste	--
	Gel	10%
Formulation	Fluoride	--
	Hydrogen Peroxide	5%
	Baking Soda	5%
	Special Flavoring	5%

# Forecast

<b>Projections</b>	<b>Last Period</b>	<b>Forecast Based on SKU est.</b>	<b>Forecast Based on Mkt est.</b>
Unit Sales	0.0	2330.0	21.8
Manufacturer Sales	0.0	1818900.0	16979.0
Allowance Expense	0.0	113000.0	1054.8
Cost of Goods Sold	0.0	798016.2	7449.3
Shipping and Tariffs	0.0	38406.6	358.5
Gross Margin	0.0	869477.2	8116.4
Promotion	0.0	4565.0	4565.0
Advertising	0.0	173.1	173.1
Sales Force	0.0	292.5	292.5
Administrative	0.0	18983.8	964.6
Total Marketing	0.0	24014.4	5995.2
Contribution after Mkting	0.0	845462.8	2121.2
Fixed Costs	0.0	350.7	350.7
Net Contribution	0.0	845112.1	1770.5



SKU	MSRP	Allow.	Sales Forecast
Economy/Medium/Tube/Paste	CLP700.00	10.0%	700.0
White/Medium/Tube/Paste	CLP800.00	10.0%	800.0
Kids/Medium/Pump/Gel	CLP830.00	0.0%	830.0

Allsmile

Campaign	Adapt. (000's)	Budget (mill.)
Families/Economy/Spanish/Chile/adapted	CLP56,629.8	CLP10.0
Families/Economy/Spanish/Spain/2 yrs old	NA	CLP7.0
Younger/White/Spanish/Chile/adapted	CLP84,944.8	CLP10.0

Distribution Channel	Distribute?	Sales People	Promote?
Total Exp. (mill.)		CLP292.5	CLP4,565.0
Traditional	X	3	X
Self Serve	X	3	
Hypermarket	X	3	X
Web/Other Home		0	
Wholesale	X	2	X

Allocate promotion based on Sales Force

Primary production in Chile