

2015

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Hayley Garner
Grand Valley State University

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FREDRICK MEIJER HONORS COLLEGE

The Role of Culture and Family in Business in Chile

Hayley Garner

4/12/2015

B.B.A, International Business & Marketing

The purpose of this paper is to analyze the effect of culture and family on business in Chile.

The Role of Family and Culture in Business in Chile

Culture is “the collective programming of the mind distinguishing the members of one group or category of people from others” (Hofstede, 2014). National culture, which is just one type of culture, has a significant impact on how business is conducted within that country. Foreign firms trying to enter a new market tend to be more successful if they learn and adapt to the country’s culture. Chile has a unique national cultural, rooted deeply in tradition but evolving for the future. This paper proposes that understanding and adapting to the cultural differences and understanding family dynamics are two factors that are related to successful business results in Chile. In this paper I will explain cultural differences in Chile, discuss the role of family, and apply these factors to the experiences of the foreign companies Home Depot, J.C. Penney, and Carrefour in Chile, as well as the reaction of Chilean firms to entrance of these companies.

Hofstede’s Cultural Dimensions

Hofstede has done extensive research on how business in different countries is influenced by culture (Hofstede, 2014). Having cultural awareness has become more important as more firms expand internationally or communicate with other firms around the world to improve relationships and avoid conflicts. Hofstede identified six dimensions of national cultural differences that were found in each country that they observed: Power Distance, Uncertainty Avoidance, Masculinity, Individualism, Long Term Orientation, and Indulgence. These dimensions are characteristics of national culture and cannot be generalized to the behavior of any single person or organization within that country. Hofstede’s cultural dimensions provide meaningful information and perspective when countries are being compared to one another. For

the purpose of this paper, I will use four of Hofstede's cultural dimensions allow for the comparison of the cultures of Chile and the United States to determine its effect on business between these two countries.

Chile and the United States score similarly in two of Hofstede's dimensions: Long Term Orientation and Indulgence (Hofstede, 2014). So, for this analysis it is more important to look at the remaining four dimensions in which the two countries' scores differ, and determine what affect these differences might have for foreign businesses expanding into Chile. The first dimension that differs is Power Distance, which is how power and authority are perceived and accepted among those in the company. In Chilean companies there is a larger power distance between workers and managers than in the United States. Chile was ruled under a dictatorship from 1973 until 1990 and the division of power from this time, and its more distant past, still has a presence in the business culture today. Chile scored higher on Uncertainty Avoidance than the United States, suggesting that in Chile the society has a strong need for structure and regulations in the legal system, in business practices, and in business structure.

The Masculinity dimension focuses on characteristics traditionally considered either more masculine or more feminine, for example, whether a country's society lives to work or works to live. According to Hofstede, Chile is considered to have a feminine culture, while the U.S. tends to have more of a masculine culture which puts more emphasis on competition and success (Hofstede, 2014). Feminine cultures, such as Chile's, tend to put more emphasis on relationships and quality of life rather than the quantity. Chileans consider relationships, both family and business relationships, to be of high importance. So, Chilean consumers may be more willing to pay higher prices in order to continue shopping at stores that they have built a relationship with (Bianchi, 2006).

The dimension upon which Chile and the United States differ most is Individualism (Hofstede, 2014). Similar to most Latin American countries, Chile scores low on the Individualism dimension where the United States scores high in this dimension. Chile's culture has been traditionally been working in groups and thinking in terms of what is best for the group. This dimension in Chile has potential to change as the economy in Chile grows, workers look for variety in their jobs, and workers become more willing to change jobs for personal improvement causing the culture to shift to be more individualist. The other aspect of Chile's collectivist culture is the emphasis that is placed on family. The family unit in Chile includes extended families that often live in close proximity to each other (Bianchi & Mena, 2004). It is common for a child in Chile to live at home with their family until he or she marries. The family dynamic in Chile is important to better understand how consumer decisions are made. It is often the woman of the house who chooses where the family shops. This is important for companies to know for marketing and store layout purposes (Bianchi, 2006). All of the dimensions have the potential to change over time in a given country, but it may take a substantial amount of time for that change to occur.

New Business Opportunities

Conducting business is relatively easy in Chile compared to many other countries. According to the 2015 Index of Economic Freedom, Chile is ranked as having the seventh freest economy, just after Canada. The U.S. ranks twelfth on this same index. This index looks at different processes and considerations that are required to start a business in a given country: government limits, trade freedom, corruption levels and property rights (2015 Index of Economic Freedom, 2015). Looking at Chile's Regulatory Efficiency, or the aspects that effect the ease of opening a business, it is shown that Chile's regulations help sustain business formation and

operations. There are seven procedures that a company must follow taking about six days to complete and opening a business costs less than one percent of the level of average annual income. Chile has a relatively open market. The country has a free trade agreement with the U.S. and is a part of the Pacific Alliance which allows most imports to enter the country duty-free. These open market attributes may encourage more Chilean businesses to open and appeal to new international companies looking to expand into Chile, creating more competition.

The Chilean government recognizes these opportunities in their economy and encourages entrepreneurs to develop their businesses in Chile creating new employment opportunities and bring new technology to the country. One organization, the Economic Growth Agency, is working to bring foreign and domestic entrepreneurs to Chile (Start Up Chile, 2014). Introduced in 2010, Start Up Chile is a government program that selects possible startups from applications sent in by entrepreneurs from around the world and invite those selected to Chile to develop their business (Start Up Chile, 2014). The participants are given \$40,000 USD and a one year working visa to develop and launch their idea. The participants are given opportunities to work with mentors and partners, which creates opportunities for knowledge sharing. This organization's statement is: "Instead of changing the world through revolution, we can change the world through #innovation." This idea of bringing innovation to Chile from around the world supports Chile's goal to create a strong and open economy. The program has inspired other similar programs to start in other countries. This focus on innovation and looking to the future uses a structured approach to new businesses that helps lower risk while encouraging people to innovate.

Foreign Companies

Chile has experienced a high amount of economic growth as well as a growing middle class. This growth has been very appealing for foreign companies wanting to expand internationally. In order to expand internationally it is important for the company to understand the culture of the country they are entering. This section discusses the idea that three foreign companies, Home Depot, J.C. Penney, and Carrefour that entered the Chilean market were unsuccessful because they failed to understand and respond to national cultural differences.

Home Depot in Chile

In 1998 Home Depot, a U.S. firm headquartered in Georgia, entered the Chilean market through a joint venture with Falabella, a local Chilean retailer (Bianchi & Ostale, 2006). This partnership was meant to help Home Depot better understand their new market and new customers. Home Depot chose to maintain the practices that they use in the United States, Canada, and Mexico because those practices had been successful in those markets. Yet this choice caused the company to face many challenges with cultural differences and ultimately led the company to exit the Chilean market within three years.

Bianchi (2006) notes that wives in Chile tend to decide where the family shops. Home Depot's atmosphere was not very appealing to women in Chile, so even though some of the male consumers preferred to shop at Home Depot they would shop where their wives preferred. Home Depot sometimes had lower prices than their competitors but consumers were willing to pay slightly higher prices to shop at Home Depot's competitors who had more appealing and family friendly stores, such as Home Center and Sodimac. Many Chilean home improvement retailers offered other home decorating and essential products which made one stop shopping highly

appealing to customers. Knowing who controls the family shopping decisions can help a firm know how to arrange their stores to make them more appealing.

The “do it yourself” (DIY) mentality that has developed a large presence in the United States and other countries was not as popular in Chile at the time Home Depot entered the market. One reason is because in Chile, it is often more cost efficient for consumers to outsource home repairs and projects to experienced laborers who charge fairly low prices. The Chilean work day has a different time schedule than that of the U.S. Many workers take a two hour break in the middle of the day to go home for lunch and then return to work and stay there until late in the evening. This leaves less time at the end of the work day to work on home projects. Weekends in Chile are often spent with family instead of working around the house. The opportunity cost of giving up this family time is much higher than what it costs to have a paid worker do the work. But as the economy grows, people may look for more opportunities that give them more variety and increase workers willingness to change jobs more frequently (Hofstede, 2014). This may cause the cost of labor to rise making it more expensive for consumers to outsource their housework. If this cost of labor increases enough a DIY mentality may start to develop in Chile.

After three years in Chile, Home Depot exited the market and sold their five Chilean operations to Falabella who rebranded them Sodimac (Bianchi, 2006). In summary, lack of attention to cultural differences and family dynamics were significant to Home Depot’s unsuccessful launch in Chile.

J.C. Penney in Chile

J.C. Penney, another U.S. company, entered Chile in 1995 (Bianchi & Ostale, 2006). Unlike Home Depot's joint venture, J.C. Penney chose to use a greenfield strategy, opening and running their own retail locations, as their mode of entry. Five years after J.C. Penney opened their first store in Santiago they exited Chile and sold their Chilean assets to a Chilean competitor, Almacenes Paris.

J.C. Penney did not use local suppliers to source their products. They used the same suppliers and products that they use in their stores in the United States (Bianchi & Ostale, 2006). This created problems for the company because the Chilean consumers preferred different styles and had different tastes than U.S. consumers. Using the same products also created a logistical problem because the seasons are opposite in these two countries. J.C. Penney had to produce clothing for different seasons all year round which increased costs and complexity.

As was the case with Home Depot, the atmosphere of the J.C. Penney store and the products that were offered in the store were key parts in why consumer traffic and sales were low (Bianchi & Ostale, 2006). Local competitors such as Falabella and Paris had saturated the Chilean market so much that their product and service selection seemed more appropriate than J.C. Penney's. The Chilean stores sell clothes, shoes, electronics, home décor, home appliances, furniture, and have their own bank. Chilean consumers expect this wide variety when shopping at a retail store: perhaps because J.C. Penney could not offer them this diverse variety of offerings, they preferred the competitors.

Carrefour in Chile

In 1998, Carrefour, a French hypermarket, entered Chile (Bianchi & Ostale, 2006). Like J.C. Penney, Carrefour chose to enter the market using a greenfield strategy. This company faced high competition from local hypermarkets, LIDER and Jumbo, as well as small food markets. Six years after entering the Chilean market, Carrefour sold their seven hypermarkets to D&S, the Chilean company that owns LIDER, and left Chile.

Local competition greatly affected Carrefour in Chile. LIDER and Jumbo were already the preferred hypermarkets of the consumers. Carrefour arrived too late to the market to gain customer favor (Bianchi and Ostale, 2006). Recall that Chile scores high on Hofstede's Uncertainty Avoidance dimension (Hofstede, 2014), and it is possible that consumers were more comfortable making consumer decisions based on the reliability and certainty they had cultivated with the local retailers, preferring to shop there than at the new and unfamiliar Carrefour. Consumers had already grown comfortable shopping at LIDER and did not want to change their habits.

Carrefour also faced the challenge of finding good and profitable locations in Chile. Chileans, like consumers in many Latin American countries, often walk or rely on public transportation to get them to the places they need to go (D'Andrea, Goebel-Krstelj, Stengel, 2004). Carrefour needed to be located in places that were close to neighborhoods or within a short taxi ride of the market they were trying to reach. This is hard for all hypermarkets to do and they therefore face competition from the local markets and small, often family run, stores that are located in residential areas.

In sum, these three international companies faced cultural differences, and high competition from national firms, that contributed to their lack of success in the Chilean market.

Family Dynamics in Chilean Business

Chile is an attractive market for foreign companies. With low barriers to entry and a competitive market, many international retail companies want to expand into Chile. A disadvantage to entering Chile is that the market is relatively small compared to other Latin American markets, such as Argentina and Brazil. In addition, there are a high number of local, often family owned, retailers that are successfully competing for market share. Similar to the most countries in the world, family owned or privately held companies make up eighty percent of the companies that operate in Chile (Martínez, 2003). Though these family owned companies may be considered fairly young companies they have been successful in adapting to new competition and learning from their competitors.

Yet, Chile's retailers face high competition from foreign companies as discussed through the examples of Home Depot, J.C. Penney, and Carrefour. Family owned Chilean retailers such as Falabella, D&S, Almacenes Paris, Santa Isabel, and Easy needed to adapt to growing competition and tried to learn from their foreign competitors. The Chilean economy has been steadily growing over the last three decades. Family owned firms recognized this and knowing that foreign competitors would continue to enter the market they were proactive in growing their businesses both in Chile and abroad. Chilean retailers "fought cleverly against foreign competitors by improving their retail offer, imitating the best practices of the foreign retailers, and strengthening their market knowledge" (Bianchi & Mena, 2004). The Chilean companies learned from their competitors and integrated many best practices into their own companies.

For example, some Chilean retailers learned about foreign companies' management practices, logistics, consumer service, merchandising, and technology (Bianchi & Mena, 2004). These companies took what they learned and used their knowledge of the Chilean culture to improve their business and increase their success. This allowed local retailers to use the same business models as their competitors but be more successful in Chile: the Chilean firms had better knowledge about the customer's wants and needs.

Conclusion

Culture and family play a large role in Chilean business. The Chilean market with its growing economy and developing middle class is attractive to many foreign companies that want to expand their growth and sales. The results of this analysis suggest that foreign companies that understand and learn from national cultural differences, understand the importance of family dynamics, and adjust their business practices to better suit the market's needs will be more successful expanding their businesses in Chile.

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Guide for GVSU Students

Studying at UBB

By

Hayley Garner

B.B.A., International Business & Marketing

2015



UNIVERSIDAD DEL BÍO-BÍO



**GRAND VALLEY
STATE UNIVERSITY**

Introduction to UBB

In many ways La Universidad del Bío Bío (UBB) is similar to Grand Valley State University (GVSU). UBB was founded in 1947 as a technical university and has undergone many transformations over the years. In 1988 the merger with the Professional Institute of Chillán brought the university to its current state. UBB has campuses split between two cities. The main campus is located in Concepción, the second largest city in Chile located along the coast. This campus has the majors of Architecture, Civil Engineering, Industrial Design, Business, Construction Engineering, and Social Work. In Chillán, located 61 miles to the east of Concepción and is a smaller city, there are two smaller campuses, La Castilla and Fernando May. The majors that are located on these campuses include Education, Health Sciences, Social work, and Psychology. The majority of GVSU students will *most likely* be attending classes in Chillán with the Chilean education majors, specifically on La Castilla campus. This will be the case for students just taking classes for Spanish credit; if you are taking business classes, or classes in other majors located in Concepción, you will live in Concepción.

Like GVSU, many of the students who attend UBB are first generation college students of traditional college age, 18-22 years old. Most often students live near the university and commute on a daily basis, sometimes as far as an hour and a half commute each way. It is typical in Chile for children to live at home until they marry. If the student's home is too far from the university to commute they will live with relatives or family friends who live closer to the university. UBB tries to keep costs low compared to other universities in the region to allow a greater number of students to attend. Most students will pay per semester instead of taking out loans.

First Day of Class at UBB

The first day of class may be overwhelming. The university culture is very different at UBB compared to GVSU. Be proactive and talk to your professors as soon as possible. Each department has a secretary who can help you locate your professor's



office. The secretary will be on the first floor of the building that your classes are in. Most departments have most, if not all, of their classes in one building. Professors do not have office hours so you must schedule your own time with them. Do this, and ask the professors about the homework, tests, etc. and what they expect from you. This helps the professors understand that you are in Chile to learn Spanish, and that you are at a different level than the Chilean students. Professors may decide to give you different homework or test that will better suit your learning.

The Chilean grading scale is a 7 point scale: a 7 is the equivalent of an A. The last passing grade is a 4, which is the equivalent of a D at Grand Valley. For a pass/fail credit you will need to earn a least a 4 in all of your classes.

It is important to be on time on the first day of class. There are some professors who do not allow students to come into their classes tardy. But after the first day, do not be surprised if you professor starts arriving late to class. It is generally acknowledged in Chile that nothing runs on time except the buses and trains. People are often 15 to 20 minutes late for class or meetings, this can turn into 30 to 45 minutes late for a social gathering

Books are very expensive in Chile. There is a 19% VAT tax on books currently in place. Because of this, most students do not purchase their textbooks. Instead they can check books out from the library and pay to have copies of the pages needed made. The copier is located in a small room attached to the library. There is an attendant who will make copies for you, and copies are inexpensive. In addition to books, professors may have reading material that you are responsible for on hold in the copy room. Give the attendant your professor's name and class name and there will be a folder associated with each class.

There is little or no central heating in the homes or schools in Chile. There are small heaters in each class room but the rooms are still cold in the winter. The winters in Chile are not as harsh as our Michigan winters; they get frost on their roofs a few times in the winter. Make sure to wear layers of warm clothing and a scarf to classes in the winter, especially on Monday mornings when the heat has been off all weekend!

The best way to travel to the campus, if you live too far away to walk, is by a *Micro*. *Micros* are public buses that have routes throughout the city. The *Agronomia* (the 3) drops you off within 3 blocks of La Castilla and the *Rapido* has a stop directly in front of Fernando May.



All buses stop at the market in the center of the city, but make sure to ask which direction the bus is heading before you get on. There are a few official bus stops; therefore, when you are getting close to your stop stand up and go near the door and ask the driver to stop, if he does

not do so automatically. You will quickly learn where the official stops are. If you are on the street and trying to get on the bus at an unofficial stop, hold your arm out, but be aware that the drivers will not always stop for you.

There is a lower bus fare for students with Chilean student ID, so try to get your ID as soon as possible. Getting your student ID may take extra time if you are starting during UBB's second semester. If you arrive during the first semester you will get your ID with the freshman students, but if you are starting during the second semester you will need to visit the student services office and order a student ID. It may take some time for the ID to come in, so continually check in at the office.

Language:

Chilean Spanish can be difficult to understand. Chileans speak very quickly and use slang called *Chilenismos*. Some of this slang comes from the indigenous languages that are found in Chile, including Mapuche and Quechua. Other influences are from the Italian and German languages brought over by immigrants. Here is a list of some of the most commonly used slang:

- *Palta*- Avocado
- *Gua gua*- baby
- *Guata*- stomach
- *Choclo*- corn
- *Cachái*- do you understand
- *Bacán*- Cool
- *Al tiro*- Immediately
- *Pololo/a*- boy/girlfriend

- *Taco*- Traffic jam
- *Fome*- boring
- *Luca*- 1000 pesos

Chilean Modern History: In Brief

There are three recent historical events that have taken place in Chile in the past 50 years that are important for students studying in Chile today to understand: the dictatorship, the earthquake in 2010, and the mining accident in the north.

The Dictatorship

In 1973, armed forces staged a coup d'état in Santiago to overthrow the elected, socialist president, Salvador Allende, and began a dictatorship that lasted until 1990. The coup took place on September 11th, 1973 at the presidential palace. President Allende was killed and General Augusto Pinochet Ugarte took power. Pinochet held power until he was internationally pressured to give the public the opportunity to vote, either to end the military rule and return to democracy, or continue the military rule. The October 1988 vote resulted in a return to democracy. The first democratic election took place in 1989 and the dictatorship officially ended in 1990. Although the dictatorship had ended, there are still many people who remained missing; they are “the disappeared” or “*los desaparecidos*” taken by the government. Many people are still searching for their loved ones.



This history is still in the recent memory of the Chileans. Chileans do not often talk about the events of the dictatorship; having lost many relatives and loved ones to the dictatorship, they do not want to bring up the bad memories. To learn more, visit the *Museo de la Memoria y los Derechos Humanos*, in Santiago. There is a guided audio tour that you can take and become more informed about the events of the dictatorship. Visiting the museum is a sobering experience, and it is very educational. Another good resource is the film *No* (2012) starring Gael García Bernal. This movie takes place at the end of the dictatorship and tells the story of a man who helped create the campaign for the “No” vote that ended the dictatorship.

Earthquake

In February 2010, Chile experienced an earthquake with a magnitude of 8.8, the sixth largest earthquake ever to be recorded. The earthquake in 2010 began in the early morning on February 27th and lasted for 3 minutes. The epicenter was located 200 miles south of Santiago and the effects were felt in 6 of the country’s 15 regions. The after effects of the earthquake were tremors that reached magnitudes of 5.5 and tsunamis crashed into the coast causing destruction in many of the coastal towns. Tremors are a common occurrence in Chile and are not considered an actual earthquake until it reaches a higher magnitude; instead they call these smaller earthquakes “*temblores*.” Because these tremors are a common occurrence it is important to know the safety procedures for during an earthquake. There is a link to the government earthquake tips in the links section of this guide. You are still able to see some of the damage caused by this earthquake in Concepción and Chillán and in the homes.

The Mining Accident

On August 5th, 2010, 33 miners were trapped in the San José copper-gold mine due to a cave-in. Exploratory bore holes were drilled, and 17 days after the cave-in, one drill returned

with a note taped to its bit stating that the 33 miners were alive and sheltered. The miners were finally rescued from the mine after surviving a record 69 days. . Many groups such as the Chilean government, NASA, and corporations from around the world helped with the rescue operation. The rescue was broadcasted live around the world. If you want to read more about the miners experience [Deep Down Dark: The Untold Stories of 33 Men Buried in a Chilean Mine, and the Miracle That Set Them Free](#) by Héctor Tobar.

Things to bring

The winters are mild in Chillán and Concepción, but there is much rain so bring a water repellent coat with a hood. Because they do not have central heating, the homes are not warm, so it is customary to wear slippers. Sunblock is very expensive in Chile, if you are able to bring some with you it would save you some money. The ozone above Chile is very thin so it is very easy to get sun burned. Peanut butter is hard to find and is not used; so if you are a peanut butter addict you better bring your own.

If you will be living with a host family you should bring them a gift upon your arrival. Some ideas of what to bring include Michigan made products, a Petoskey stone, or Mackinaw Island fudge. Tea is also very popular in Chile, but US brands are very expensive so a box of special, branded tea would be a nice family gift. Do not bring fresh produce of any kind because it will not be allowed through customs. Bring pictures of your family, hometown, and school to share with your Chilean friends and family.

Phone numbers and University Addresses

- Concepción: Av. Collao 1202, Casilla 5-C, Concepción 4051381, Region Metropolitana, Chile
- Chillán, La Castilla Campus: Avda. Andrés Bello s/n, Casilla 447 – CP:3800708
- Taxi phone number: 42-2-212121

Places to visit near Chillán and Concepción

Chillán and Concepción are located in very convenient locations for travel to other Chilean places. Buses run from Chillán into the Andes Mountains and take you to *Las Termas de Chillán*. Here there is skiing, hotels with hot springs, and other outdoor activities. To the west there are small coastal towns such as Los Tumbes and Buchupereo where you can visit the beach. Other places to visit include Pucón, which takes four hours by bus. Pucón is a destination for outdoor activities, thermal springs, and national parks. In March 2015 the volcano, Villarica, located near Pucón erupted. This eruption was predicted in advance and there was no one on the volcano at the time.



Volcán Villarica

Helpful web links

Passport: <http://travel.state.gov/content/passports/english/passports/first-time.html#step6>

Visa: <http://www.chile-usa.org/visasgral.htm>

UBB: <http://www.ubiobio.cl/w/>

Buses: <https://www.turbus.cl/wtbus/indexCompra.jsf>

LAN Airline: http://www.lan.com/en_us/sitio_personas/index.html

Chilean History:

<http://www.chocklydigital.com/portfolio/Chile/history.html>

<http://www.nytimes.com/2006/12/11/world/americas/11pinochet.html?pagewanted=all>

<http://news.bbc.co.uk/2/hi/americas/1222905.stm>

<http://www.ibtimes.com/chile-pinochet-25th-anniversary-dictators-ouster-he-among-disappeared-1414248>

2010 Earthquake: <http://www.britannica.com/EBchecked/topic/1669019/Chile-earthquake-of-2010>

Earthquake safety tips: <http://www.ready.gov/earthquakes>

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