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Argentina

Retail Food Sector

Report

2001

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Report Highlights:

Post estimates about half of the country's total food and beverage retail sales and roughly 70 percent of those imported are sold through hypermarkets and superstores (food ingredients and HRI account for the balance). As a result of a three-year-long recession, high-end hypermarkets are slowly losing market share to smaller, price-competitive supermarkets and small warehouse-type stores. Also due to weak demand, retailers developed lines of more inexpensive products such as B-brands and private labels. Despite these difficulties, opportunities exist for a range of U.S. foods and beverages.

SECTION I. MARKET SUMMARY

- < Argentine total retail sales of foods and beverages (F&B) for 2001 are forecast to remain flat at roughly \$22.4 billion, similar to last year.
- < In 2001, hypermarkets and superstores account for 42 percent (down from 44 percent in 2000) of the total F&B sales; small supermarkets (including warehouse stores - locally known as *hard-discounts*) 28 percent (up from 26 percent in 2000); grocery store 19 percent; and convenience stores (CS), gas marts and kiosks 11 percent, unchanged from 2000.
- < Hypermarkets and superstores are the retail formats which have most grown in the past six years. However, due to the economic recession in 1999/01, their market share has dropped.
- < Many international retail companies are operating in Argentina: Wal Mart, Ahold, Carrefour-Promodes, Casino, Auchan, Makro. Coto, Jumbo and La Anonima are the only large retailers which still have local ownership.
- < Large retailers continue to expand into the interior of the country.
- < Strong competition and concentration in Buenos Aires city and suburbs, and new regulations limiting the expansion of big stores.
- < Warehouse stores (see page 7) continue to expand strongly, mainly because of competitive prices and proximity. Most large retail companies are looking into this business to recover lost market share.
- < For the first time in the decade, hyper and supermarkets lost money in 2000 and are expected to do so in 2001. This is the result of weaker demand and strong competition
- < Due to the economic recession, customers are demanding more inexpensive products. As a result, large retailers are increasingly launching private labels, B-brands and other low-price alternatives.
- < Most large supermarkets continue to expand their private label lines, with increasing popularity. Supermarket private labels for F&B products account for approximately 10-12 percent of the total supermarket sales, which almost doubled in the last two years. The main products sold under private label are canned fish and seafood, fresh pasta, mashed potatoes, gelatins, dairy products and soft drinks. Almost 67 percent of consumers reported to have bought at least one product marketed under a private label during the last year.
- < Large retail companies have tremendous negotiating power, putting strong pressure on their suppliers, e.g. free stock for every new store inauguration, high slotting fees, financial support for marketing, longer payment forms of 60-120 days, etc.
- < In mid-2000 retailers and suppliers signed an agreement called "Code of Good Marketing Practices", which prohibits retailers from selling under the cost price, shortens payment terms and prohibits debiting of sums which are not previously agreed. Its result has been relatively good.
- < Approximately 70 percent of all imported F&B are sold through hypermarkets, superstores and supermarkets.

Value of Imported Food and Beverage Retail Sales vs. Domestic Products (in \$ billion)

Retail Sales/Year	1997	1998	1999	2000	2001*
Imported F&B	0.83	0.94	0.94	1.05	1.05
Domestic F&B	19.3	20.8	20.5	21.3	21.3
Imp/Total F&B Retail Sales %	4.3	4.5	4.6	5.0	5.0

* FAS projection

Trends in Distribution Channels

- < More hypermarkets and superstores are being established in the interior of the country, primarily in cities with +100,000 people
- < Slower pace of opening of large stores compared to the past five years
- < In 2002, it is expected an increase in sales in close-by superettes and warehouse stores, and a decrease in hypermarkets
- < A significant drop of sales per sqm. due to competition and new openings
- < Strong expansion of warehouse stores, especially in Buenos Aires city and in medium-sized cities in the interior. In 2000, they totaled almost 400 stores, double from last year. This format addresses low-income customers, has a high percentage of private label items, good prices and most of them offer home-delivery service.
- < Concentration through new openings, mergers and acquisitions is expected to continue but at a slower pace. Carrefour-Promodes bought Norte, Tia, and Dia, with joint food and beverage sales of about \$2.7 billion and 12 percent of the country's total F&B retail sales.
- < Most purchases of domestically-produced products by hypermarkets and superstores are done directly from processors, avoiding intermediaries.
- < Superstores purchase directly (occasionally through local agents/representatives) a significant amount of imported F&B. This trend is growing.
- < Large retailers have modern centralized warehouses, whereas grocery stores and small supermarkets suffer from an inefficient and, in many cases, obsolete distribution and logistical systems.
- < Increased home and office delivery by retailers.
- < Slow expansion of Internet and telephone sales. Currently, only two supermarket chains provide this service. A couple of years ago, LeShop - the first virtual supermarket - was launched in Argentina.
- < A majority of consumers are expected to continue to value price over quality, though value will be increasingly important. However, recession is giving increasing importance to price.
- < Wholesale clubs (Sam's and Makro's Kargo) have closed their stores as the format did not "catch on".
- < Convenience stores are expected to increase in number as more gas stations incorporate this service, increasing competition with small supermarkets and mom & pop stores.
- < With the incorporation of more F&B, kiosks and convenience stores will increase their competition with small supermarkets and grocery stores.
- < Coupons are just being incorporated in an attempt to increase sales.

- < Supermarkets sell primarily non-perishable products, carbonated and alcoholic beverages, cold cuts, dairy products and cheese. Fifty percent of meats and poultry are sold in supermarkets and the balance in traditional/specialized stores, while supermarkets have a relatively small market share of fruits, vegetables and bread sales.
- < The upper/middle-up socio-economic strata usually buy in hypermarkets since they value variety and service. They also make small purchases of fresh products in close-by small stores. The middle class usually shop in small supermarkets and warehouse stores. Lower-income consumers typically shop in traditional grocery stores.

Number and Type of Retail Outlets (2000)

Type of Store	Number of Outlets	% of Total Outlets	% of F&B Retail Sales*
Hypermarkets	58	0.03	15
Superstores	1,248	0.7	29
Small Supermarkets (incl. small warehouses)	13,002	6.8	26
Grocery Stores	93,615	49.1	19
Convenience Stores	5,063	2.7	4
Kiosks	77,756	40.1	7.0
Total	190,742	100	100

Source: ACNielsen

* FAS estimate

Trends in Services Offered by Retailers

- < Incorporation of home meal replacement services, such as hot and frozen meals
- < Larger space devoted for frozen foods.
- < Thematic shelves are starting to be adopted. Although the variety is small, more hypermarkets offer ethnic food, kosher food, and organic products, and also have a special area for imported products.
- < Home delivery is expanding in all formats. However, office delivery is mainly provided by kiosks and convenience stores. New growing trend towards home delivery of fresh produce directly from the producer.
- < Slow expansion among the more affluent consumers of purchases by phone and the Internet. Although most hyper and supermarkets have a web site, only two offer shopping service by Internet.
- < Opening of other food and non-food businesses annexed to hypermarkets and superstores, such as movie theaters, food quarters, entertainment parks, etc.
- < Incorporation of inexpensive fast food restaurants inside the stores.

Outlook for U.S. Exports of Food & Beverage Products

ADVANTAGES	CHALLENGES
Argentine consumers think of U.S. products as high quality and reliable	Mercosur preferential tariffs encourage inter-regional trade. Brazilian and Chilean competition is strong for many products, supplying a little less than half of Argentine F&B imports
A large number of Argentines travel to the U.S., and are exposed to its culture and products	Lack of brand awareness of many imported products by importers, retailers and consumers
Most imported food is speciality and/or novelty in large retailers and convenience stores	Lack of importers' and retailers' knowledge about purchasing and merchandising U.S. products
Quality and variety of U.S. F&B products	Limited market awareness by U.S. exporters of opportunities in Argentina
Increasing demand for convenience foods (including frozen and microwaveable products)	Relatively small initial purchases by importers, which discourages U.S. suppliers and increases unit costs
Hypermarket and superstore expansion in the interior of the country opens new opportunities to U.S. F&B products	High cost for launching new brands/products and high slotting fees, which exporters and importers must share
Large foreign retail chains have more opportunities to deal with foreign suppliers	Large local supply of many F&B
Large retailers are importing more products directly	Large foreign investment in the food industry improved efficiency, quality and competition
Strong local currency makes imported products more accessible to consumers	Higher distribution costs to reach interior of the country and smaller cities
Registration of imported F&B and import procedures are usually relatively simple	Generally U.S. F&B are higher priced than local and E.U. products due to the strong dollar and higher transport costs
Expansion of private labels by supermarket and warehouse stores offer good opportunities for U.S. F&B private-label brands.	Local importers perceive lack of flexibility and response from most U.S. exporters
Greater use of U.S. consolidating companies, which facilitates imports of smaller volumes and a wider variety of products	Delayed payments to importers from retailers

Good local cold chain facilities to allow imports of frozen and chilled products	High cost of credit
Greater interest of retailers in carrying U.S. F&B	
Better sanitary status compared to Europe's	
Greater exposure of local retailers to U.S. exporters and products through FAS activities	
Improved U.S. labeling and packaging (better accepted locally)	
Registration of F&B imports and import procedures are usually relatively simple	
Availability of U.S. Supplier Credit Guarantee Program for most processed F&B products	

SECTION II. ROAD MAP FOR MARKET ENTRY

A. HYPERMARKETS OR SUPERCENTERS, SUPERSTORES AND WAREHOUSE OUTLETS

Entry Strategy

The best method to import a product will depend upon the product, the importer, and retailers. However, virtually all successful trade depends upon the commitment of the exporter to devote the time and resources necessary for building a market for his/her product(s). In general, imported F&B come into Argentina through any of the following ways:

- Direct imports by supermarkets. Import or purchasing managers of large retail companies identify good products in international food shows, buying missions, sales missions, etc. They establish a direct contact with the foreign supplier and import the products directly. Due to small initial volumes, they usually use large wholesalers or consolidators.

- Local agents, who work closely with large retail chains, usually present new products to purchasing managers in supermarkets. Imports are done on behalf of supermarkets and the agents charge a commission. They stay on top of the product to supervise its marketing and brand development.

- Local food and beverage importers, who import products and then market them in supermarkets and/or HRI establishments. A few of them have been in the market for several years and have

well-established brands. They mainly specialize in gourmet foods.

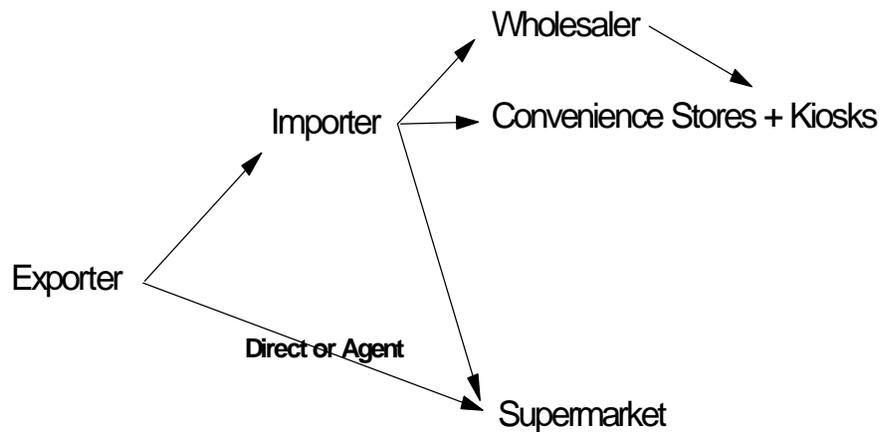
Local processors (mainly subsidiaries of multinational companies) such as Nestle, Parmalat, Procter and Gamble, Pepsico, Danone, Nabisco, Ferrero, etc., which import and distribute products usually manufactured by their sister companies.

* Frozen food products have to be marketed through an importer or local processor which has a refrigerated distribution chain. In general, superstores do not import directly these types of products.

* Food products can be imported directly (not through agents) by hypermarkets. However, making efficient contact with buyers is very difficult. Based on past experiences, many products imported directly have not had continuity in the market.

Market Structure

Distribution Channel Flow Diagram
Imported Foods & Beverages



Company
(2000)

Profiles

Retailer	Ownership	Est. Total Sales \$ Million *	No. of Outlets	Locations	Purchasing Agent Type
Carrefour/ Norte/Tia/Dia	French	3,900	360	National	Direct, agent, importer
Disco/Ahold	Local/Dutch	2,000	220	National	Direct, agent, importer
Coto	Local	1,600	88	Buenos Aires/ Large Cities	Direct, agent, importer
Jumbo	Chilean	600	15	Buenos Aires	Direct, agent, importer
Libertad/ Casino	Local/French	600	12	Center-North of Argentina	Direct, agent, importer
La Anonima	Local	600	86	P primarily South of Argentina	Direct, importer
Wal Mart	US	500	11	Buenos Aires/ Large Cities	Direct, agent, importer
Toledo	Local	260	18	S.E. Buenos Aires Province	Direct, agent, importer

* F&B sales range between 68-70 percent.

- < Argentina has mainly the following retail store formats:
 - < hypermarkets (+5,000 sqm., +25 checkouts, driving distance)
 - < supermarkets (400/5,000 sqm., 4/25 checkouts, walking distance)
 - < **small supermarkets or superettes** (<400 sqm., less than 3 checkouts, proximity, delivery)
 - < warehouse stores (<500 sqm, proximity, 2-3 checkouts, low prices, 65 percent of private label products and B-brands, a few first-brands, 500-1,500 products, delivery)
- < Buenos Aires city and suburbs are covered by all four above formats.
- < Large cities (mainly provincial capitals) have primarily supermarkets and superettes, and several have hypermarkets.
- < Smaller cities (less than 100,000 people) have primarily superettes and some supermarkets.
- < Warehouse stores are growing in popularity. In 2000, they totaled almost 400 stores, double from last year.
- < Local hypermarket and superstore chains offer a wide selection of imported products, especially in stores located in the most affluent areas of Buenos Aires city and suburbs (where one third of the country's population lives, and almost half of the sales are done).

- < Supermarkets incorporate new imported products to attract consumers. Globalization encourages people to try F&B from around the world.
- < Almost 95 percent of the upper class, 80 percent of the middle class and about 60 percent of the lower class shop in hypermarkets and superstores.

B. CONVENIENCE STORES, GAS MARTS, KIOSKS

Entry Strategy

- < The best method for new-to-market exporters is to enter the market through importers who have their own distribution networks, and to a lesser degree, through wholesalers.
- < It should be noted that participation in trade shows, especially SIAL Mercosur (next edition will be held in mid-2003), and other professional trade shows foster contact between U.S. suppliers and importers primarily from the Mercosur region.
- < In general, a local representative is helpful to develop negotiations with retailers. Most food importers sell directly to this subsector.
- < Selling to gas-marts owned by oil companies should be addressed to their purchasing managers. In all other formats, convenience stores and kiosks, the decision is taken by each owner.

Market Structure

Please refer to flow chart in Section A.

Company Profiles

Retailer Name	Ownership	Sales (\$ Million)	No. of Outlets	Locations	Purchasing Agent Type
EG3 (Petrobras)	Brazilian	120	300	Nationwide	Importer/ distributor
Esso Shop & Minishop (Esso)	U.S.	120	300	Nationwide	Importer/ distributor
YPF (Repsol)	Spanish	320	800	Nationwide	Importer/ distributor
Shell Shop (Shell)	British/ Dutch	200	500	Nationwide	Importer/ distributor

Source: FAS estimate

- < **Gas mart chains or convenience stores** are a relatively new format in Argentina. They started operation in the early nineties as a separate division of oil companies. A high percentage of these outlets operates under franchising. Approximately 50 percent of gas

- stations includes convenience stores.
- < There are approximately 5,000 convenience stores all over the country. In 2000, they accounted for 4 percent of the total retail sale of F&B.
 - < They are typically located within gas stations either in cities or highways, open 24 hours a day, and offer a wide variety of food products (between 2,000 and 3,000), such as frozen food, fast food, snacks, confectionery items, alcoholic and non-alcoholic beverages, dairy products, etc. They also include a gift area and an eating area with microwaves. Some gas marts have ATM machines.
 - < Customers of convenience stores in cities, mostly youngsters, usually make purchases by impulse (e.g. confectionery items), or because of their proximity and the fact that they are open 24 hours a day. Customers of convenience stores in highways are primarily travelers.
 - < Being open 24 hours a day and their relative security are some of the major attractive features of gas marts.
 - < Convenience stores are expected to continue expanding and represent a good channel for imported F&B.
 - < Convenience stores located in Buenos Aires City and suburbs account for more than half of the total sales of this format.
 - < Over 50 percent of convenience store customers belong to middle class and 40 percent, to the upper/middle strata.
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- < **Kiosks** are smaller than gas marts and they primarily sell confectionery products, snacks, cigarettes, soft drinks, ice cream, etc. They do not have eating areas, and most of them are family-run. Some kiosks have become drugstores (maxikiosks), with self-service shelves and a wider product variety (from sandwiches/hot dogs to sugar and imported gourmet products).
 - < There are over 78,000 kiosks in Argentina.
 - < In 2000, kiosks accounted for 7 percent of the total retail sale of F&B products.
 - < Kiosk customers belong to all socio-economic classes. Maxikiosks are popular among workers, who purchase inexpensive food, and students.
 - < Larger kiosks are incorporating vending machines.
-
- < Most imported items sold in convenience stores and kiosks are chocolates, alcoholic beverages, confectionery, ice cream, ham, cheese, and specialties.
 - < The location of convenience stores and kiosks in Argentina is mostly related to consumption patterns. Buenos Aires City and suburbs show a higher concentration of outlets (35 percent), followed by major cities such as Córdoba, Rosario, Mendoza, Tucumán, Mar del Plata, Bahía Blanca, Santa Fe, Paraná, Neuquén, and Salta.
 - < Good growth is expected in convenience stores in the near future as old gas stations continue to be modernized.

C. TRADITIONAL MARKETS - "MOM & POP" SMALL INDEPENDENT GROCERY STORES (including small supermarkets)

Entry Strategy

- < The best method to enter the market is the same as for convenience stores (please refer to Section B).

Market Structure

Please refer to flow chart in Section A.

Subsector Profile

- < In 2000, traditional stores accounted for almost 45 percent of the total retail sale of F&B products. Around 15 years ago, traditional markets comprised 73 percent of the total sales of F&B products.
- < In the last decade, this subsector has shown a gradual decline in favor of supercenters and superstores which -- as mentioned above -- provide approximately 44 percent of the total retail sales of F&B in Argentina. However, small grocery stores continue to decline, while small supermarkets are increasing significantly their market share.
- < Customers of traditional stores primarily belong to the middle and middle-low socio economic classes, and they usually address local clients.
- < Almost 5 percent of the upper class, 20 percent of the middle class and about 45 percent of the lower class shop in traditional stores.
- < Their market share has gone up slightly due to the recession and growing unemployment, with more people buying with credit which is generally granted by the owners of the small grocery stores.
- < Only a small percentage of imported F&B is sold through traditional stores.

SECTION III. COMPETITION

- < Argentina is essentially a food-producing country.
- < Of all retail F&B sold in 2000, 5 percent were imported products.
- < Food products imported into Argentina usually fall into one of the following categories: 1) domestic supply is smaller than the demand, 2) they are premium items, 3) they are less expensive than domestically-produced products, or 4) they are novelties.
- < Some food products (e.g. pork, nuts, some cheeses, canned foods, and some confectionery items) can be purchased abroad at lower prices.
- < Argentine companies also import a wide range of premium products because of their high quality and variety.

- < Food products are imported mainly from Mercosur countries (primarily Brazil and Chile) due to two main reasons: proximity and reduced preferential import tariffs. Moreover, imports from Brazil have been growing in the past few years due to their constant currency devaluation. Imported products also come from Ecuador, European countries (especially Spain, France, Italy, and Germany) and the United States.

The following table lists the advantages and disadvantages of both local and imported F&B products

	ADVANTAGES	DISADVANTAGES
Locally Produced	<ul style="list-style-type: none"> * established products * established brands * established manufacturers * adapted to local preferences * fresher/longer shelf-life * generally less expensive * wide distribution * strong marketing support 	<ul style="list-style-type: none"> * not always the best quality * slower in introducing new novelty products * expensive slotting fees
Imported	<ul style="list-style-type: none"> * quality * novelty * availability (in case of products with limited local production) * variety * good image * improved and more attractive packagings 	<ul style="list-style-type: none"> * generally more expensive * shorter shelf-life * different taste * poor or no marketing support * distribution limitations (run out of stocks) * importation/product registration

The following is a brief description of the market per major retail product categories

- < With regard to **snack food**, products of U.S. origin have a very good reputation. However, the main market player has manufacturing plants in Argentina (Note: PepsiCo holds over 70 percent of the Argentine snack food market producing many U.S. labels).
- < On **breakfast cereals**, domestic production is also very significant. U.S.-owned

- companies established in Argentina (Kellogg's) lead the market. However, some varieties are imported from Brazil, the U.S. and Mexico. Disco supermarket imports from the United States for their private label. Consumption is expected to continue growing.
- < Argentina produces and exports **beef**. Thus, imports are not significant although some **sweetbreads** are imported from the United States. **Pork** imports are significant, coming primarily from Brazil. Although Argentina produces a lot of **poultry**, some is also imported from Brazil.
 - < Regarding **dairy products**, Argentina is self-sufficient. However, some imports of cheese take place. Uruguay accounts for most of hard cheese imports, followed by the Netherlands and New Zealand. On semi-soft cheese, Uruguay has also an import market share, again followed by the Netherlands and New Zealand. With regard to soft cheese, the United States leads the import market, followed by Uruguay and Denmark.
 - < There are large imports of frozen and preserved **fish and seafood** specialties, coming primarily from Brazil, Ecuador, Chile, Spain, and Thailand.
 - < Some **stone fruits** are imported from Chile (peaches and plums), but only to supplement domestic production. The United States supplies apples to Argentina, although domestic production is very large. There are significant imports of **canned fruits**, including peaches, pineapples, and fruit cocktails. Greece is the main supplier, followed by Chile.
 - < During the past few years, the United States accounted for approximately 20 percent of Argentine imports of **tree nuts** (primarily almonds and walnuts). However, Chilean exports are growing.
 - < Regarding **soft drinks**, imports have a 1 percent-share of the total market, of which the majority comes from Chile and the U.S. Belgian brands of **mineral water** account for most imports. Brazil supplies the largest **beer** imports, followed by Chile, Belgium and Germany. **Wine** is imported primarily from Chile, France and Spain. France accounts for the largest share of sparkling wine imports, followed by Spain. There continues to be a limited demand for California wine.
 - < Argentina is self-sufficient in **pet food** production, especially after the opening of several manufacturing plants owned by foreign companies, who have established in the country in the last few years. However, some *premium* pet food is imported, primarily from the United States, followed by Brazil.

SECTION IV. BEST PRODUCT PROSPECTS

The best product prospects for U.S. F&B in the Argentine retail market are as follows:

Product Type	Pcts Present in the Market w/Good Sales Potential	Pcts not Present in Significant Quantities but w/Good Sales Potential	Pcts not Present because They Face Significant Barriers	Barriers/ Reasons
Pork/Ham		X		
Preserved Fish		X		
Chocolate	X			
Whisky/Bourbon		X		
Canned Veggies.	X			
Special Cheeses		X		
Fruit & Nut Prep.		X		
Frozen/Fresh Fish and Molluscs	X			
Sugar Confection.	X			
Beer	X			
Fresh Kiwi	X			***
Fresh Citrus	X			***
Sauces & Prep.	X			
Bakery Products	X			
Isotonic Bvgs.	X			
Fresh Stone Fruits	X			***
Fr. Deciduous Fruits	X			***
Fresh Grapes	X			***
Frozen Vegetables		X		
Sparkling Wine	X			

*** Please contact our office for current phytosanitary regulations

SECTION V. POST CONTACT AND FURTHER INFORMATION

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