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# Argentina

# HRI Food Service Sector

# 2007

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**Report Highlights:**
The US$7.5 billion Argentine HRI sector continues to rely heavily on local goods, with only 5 percent of the HRI sector supplied by imports. The market shows potential for growth of imports, as a devalued peso has fueled a 9 percent growth in tourism and a boom in hotel construction. Other growing markets are in private institutional catering, as many private firms are outsourcing their in-house catering needs. American products are associated with quality, consistency and diversity. American exporters focusing on the HRI sector are advised to incorporate the crossover benefits of developing an integrated plan involving both the HRI and retail sectors.

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# I. Market Summary

The import market for food products used in the Hotel, Restaurant and Institutional (HRI) sector in Argentina is a growing portion of total food sales, and displays a promise worth investigating. Several factors that characterize the sector are listed below:

- The food and beverage sector in Argentina represents approximately 8.5 percent of the country's US$204 billion GDP.

- An estimated 5 percent of food and beverages used in the HRI sector is imported, representing approximately US$50 million in value terms.

- The 2002 devaluation of the peso has fueled an annual growth of over 9 percent in foreign tourists, which has in turn created a boom in hotel investment and a need for imported foods and food ingredients.

The growth of the economy and the HRI sector in the past four years is highlighted in the table below, while some of the main factors that will influence changes in the future are presented later:

**Table 1. Growth in Economy and HRI Sector**

| Year | GDP (Real Growth) | HRI Sector (Real Growth) | HRI Sector Total Volume (US$ billion in current prices) |
|---|---|---|---|
| 2003 | 8.8 | 5.4 | 4.308 |
| 2004 | 9.0 | 7.3 | 5.236 |
| 2005 | 9.2 | 6.2 | 6.497 |
| 2006 | 8.4 | 6.0* | 7.500* |

Sources: FAS, CLAVES
*Estimate

- Looking at relative shares of the three components of the HRI sector, Hotels and Resorts account for 20 percent of purchases, Restaurants for 70 percent, and Institutions for 10 percent.

- Hotel food purchases are expected to grow steadily in the near future as a reflection of the expected 9 percent increase in tourism. There are currently 17 five-star hotels in Buenos Aires, with plans to build six more in the near future. There are 250 hotels currently under construction across the country, and several high-end international chains have announced plans to enter the Argentine market with multiple hotels both in Buenos Aires and the interior.

- The growth of the restaurant sub-sector, comprising over 35,000 establishments countrywide, is projected to closely follow the expansion of the economy. It is extremely atomized, where the top 75 businesses only represent 5 percent of total sales. A growing upper and middle class has begun to explore into ethnic cuisines and fusion cooking, creating a growing demand for imported ingredients.

- The local institutional sub-sector is forecast to grow at about 6 percent annually in the next few years. Catering service for private companies is becoming more important and looks to grow at rates three times those of the sub-sector as a whole.

To summarize a number of factors expected to influence the HRI sector in the coming years, please review the table below:

**Table 2. Factors Expected to Affect the HRI Sector**

| Macroeconomic | Microeconomic |
|---|---|
| Economic stability | Expansion of international tourism |
| Continuity of the economic model | Domestic tourism potential |
| Continued devalued peso exchange rate | Low expenditure for eating away from homes |
| Strong investment in the hotel sector | Longer work hours |
| Greater per capita GDP growth | More women in the workforce |
| | Greater professionalism in the restaurant sector |
| | Increased use of distinct dishes prepared by highly-trained chefs |

As in any market, a potential exporter will face challenges. Some of the points that an exporter must consider, along with advantages or incentives to enter the market, are included in the following table:

**Table 3. Advantages and Challenges**

| Advantages | Challenges |
|---|---|
| Good acceptance of "American Culture" and products | Competition with well-established European and Asian cuisine (especially Mediterranean) |
| Association of American food culture with service, speed and efficiency | Need to change image of American food, which is almost exclusively associated with fast food. |
| Excellent quality of U.S. food and beverages | Need to promote use of American foods in other cuisines |
| Good knowledge of the use of frozen and precooked food products in the HRI sector | Need for efficient supply |
| Product standardization and good packaging | Need to be flexible (especially on terms and volumes) |
| Novel and user-friendly products and packaging | Difficulting of financing of products |
| Capacity to adapt to new cultures | Argentines preference for ethnic products from country of origin (e.g. Chinese food from China) |
| Brand name recognition | |

- Most restaurants usually buy products based on the lowest price, not on quality, a fact also true of the institutional sub-sector. In contrast, obtaining high quality food products for catering of events is a very significant factor in that sub-sector's purchasing decisions.

- In general, local HRI operators still prefer fresh products to those that are precooked, preserved, frozen or canned.

- Although the use of frozen products in the HRI sector is very low (5 percent), the current trend is showing that they have good growth potential.

# II. Road Map for Market Entry

## A. Entry Strategy

The most common way to enter the Argentine market is through an importer or distributor, due to their knowledge of the market and well-developed contacts and operating distribution systems.

Due to the relatively small volume of imported products demanded by the HRI sector, its professionalism and the types of products imported, it is recommended that an exporter work closely with chefs to develop a strategy to incorporate products in traditional and special menus to generate increased demand. Additionally, incorporating a comprehensive import plan to both HRI and retail is necessary; restaurant clients are much more likely to demand that a restaurant use a product when it is a familiar good also found in the neighborhood supermarket. The use of top internationally recognized brands as imports is also fundamental to this approach.

There are two main reasons why the volume of imported food products is not very significant:

- Good quality and timely supply of domestic products that already exists; and

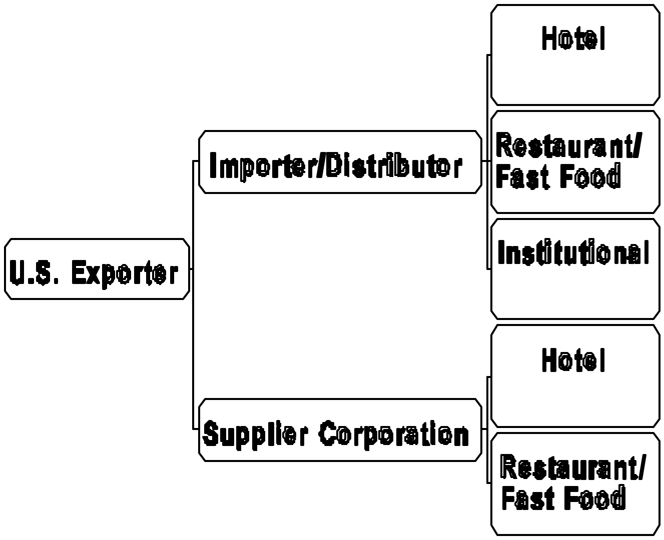
- Large number of establishments in the HRI sector, a sector that is characterized by a very atomized market with many small family-run companies and a high rotation (rapid entry and exit in the market).

Therefore, shipments to Argentina are quite limited in volume, unless exporters also take advantage of Argentina as a point of entry for products that are distributed to neighboring countries (Brazil, Chile, Paraguay, and Uruguay) from Argentina.

## B. Market Structure

- Supply and distribution channels are the same for both imported and domestic food and beverages. There is also little difference among the types of establishments or institutions to supply: Hotels, Restaurants and Institutional Contracts. The following diagram shows the distribution channel flow:

**Figure 1. Distribution Channel Flow**




- The local HRI sector buys foods and beverages from several distributors. In some cases, there are distributors or importers/distributors who handle several food lines, such as dry, refrigerated and frozen. These are currently the most widely used items at the highest level of the HRI sector.

Due to relatively small volumes and limited storage capacity in the sector, there is little chance of much direct trade developing between exporters and most parts of the HRI sector, with the obvious exception of several large international restaurant chains. The following table highlights the distribution chains for several important sectors.

**Table 4. Distribution Channels in Argentina**

| Type of Distributors | Distributor Sector |
|---|---|
| Manufacturer/distributor (md) | Fish |
| Distributor (d) | Frozen products |
| Importer/distributor (id) | Canned products |
| Wholesale distributor (wd) | Cold cuts |
| | Meats |
| | Fruits and vegetables |
| | Chilled and dairy products |
| | Beverages |

- Mid-range restaurants and hotels use many distributors to be able to source a greater selection of food products and obtain better quality and prices.

- High-end restaurants and institutions try to concentrate most of their purchases with a few suppliers. Therefore, they usually work through distributors or wholesale distributors who handle many food and beverage products at good prices.

- There are very few establishments (primarily hotels and fast food chains) that import products directly. They generally source their products from an importer or importer/distributor. Five-star hotels and catering services for events only occasionally import specialty foods and beverages.

- There are approximately a dozen HRI importer/distributor companies in Argentina. Any imported new-to-market product will have better chances if marketed through one of these companies.

- The hotel gastronomy sub-sector (H) proportionally utilizes more imported food and beverage products due to its high level of professionalism, product and menu specialization, high quality standards and low price sensitivity.

- In restaurants (R), those specializing in international cuisine use a higher proportion of imported products. Demand is mainly for specific products. Frozen and precooked foods are still low in popularity, primarily because of the perception of higher costs. Additionally, there is a strong culture among restaurant owners to prepare most products in-house.

- In the Institutional (I) sub-sector, companies servicing firms, schools and hospitals require simple and standardized inputs, which are almost entirely sourced locally. Top caterers for events, hotels and restaurants use a greater number of imported foods and beverages, mainly specific products that are not produced domestically or premium foods and beverages for high level events.

# III. Sub-Sector Profiles

- The HRI sector is divided into: hotels - 20 percent; restaurants - 40 percent; fast food chains - 13 percent; convenience stores - 13 percent; take-out - 4 percent; and institutions - 10 percent.

- The Buenos Aires metropolitan region (12 million people) accounts for approximately 70 percent of the HRI sector´s total sales.

## A. Hotel

**Table 5. Leading Hotels**

| Company Name | Number of Outlets | Coverage | Company Name | Number of Outlets | Coverage |
|---|---|---|---|---|---|
| Sheraton | 7 | National | Hyatt | 2 | Buenos Aires, Cordoba |
| Marriott | 1 | Buenos Aires | Holiday Inn | 5 | National |
| Four Seasons | 1 | Buenos Aires | NH | 4 | National |
| Caesar Park | 1 | Buenos Aires | Best Western | 2 | Buenos Aires, El Calafate |
| Leading Hotels of the World | 2 | Alvear in Buenos Aires and Llao Llao in Bariloche | Accor | 2 Sofitel<br>2 Ibis | Buenos Aires, Mendoza |
| Days inn | 1 | Cordoba | Radisson | 7 (Planned) | National |

Source: FAS

- The hotel (H) sub-sector is very dynamic and shows good growth potential as a consequence of a boom in tourism following the devaluation of the peso in 2002. Domestic and international tourism is expected to grow approximately 10 percent annually in the years to come. The average stay of the international tourist has increased by 14.1 percent and average expenses by nearly 20 percent, and total international tourists are expected to reach 4 million in 2006.

**Table 6. Tourism Growth in Argentina**

| Year | Tourists | Growth (%) | US and Canadian Tourists | Expenses (US$ million) | Growth (%) | North American Expenses (US$ million) |
|---|---|---|---|---|---|---|
| **2004** | 3,456,527 | 4.7 | 302,255 | 2162.7 | 8.1 | 323.4 |
| **2005** | 3,895,000 | 12.7 | 371,405 | 2664.5 | 23.2 | 415.8 |
| **2006*** | 4,249,593 | 9.1 | 419,137 | 3169.8 | 19 | 503.8 |

Source: Argentine Secretary of Tourism
*Estimate

- Cruise traffic in 2005 increased by 40 percent, with an increase in passengers of 66 percent, to a total of 110,000, mostly American. The average stay per cruise passenger in Argentina is two days, with expenses at US$186 per day.

- There are close to 2,300 hotels in Argentina. Approximately 200 are located in Buenos Aires City, and of the latter group, 17 are five-star hotels, 51 are four-star and 43 are three-star hotels. The five-star hotels in Buenos Aires operate at full occupancy and demand for high-end lodgings continues to outpace supply.

- In 2005, 150 new hotels were opened in Argentina, with a value of US$500 million in investments. US$1400 million in hotel investment was expected in 2006, with a newfound interest in opening hotels in locations outside the capital, such as Salta, Ushuaia, San Carlos de Bariloche, El Calafate, Mendoza and Rosario.

- Hilton and Sheraton have announced plans to expand further into the market, building hotels in tourist spots far from Buenos Aires. Radisson is planning on entering Argentina with the construction of seven new hotels.

- In five-star hotels, catering service represents a far greater business than restaurants, as the number of social events, congresses, workshops, conventions, etc., is very high. Argentines who eat outside their homes do not usually choose hotel restaurants.

## B. Restaurant

**Table 7. Leading Restaurants, 2005**

| Outlet Name And Type | Number of Outlets | Estimated Annual Sales (US$ million) | Coverage | Country of Origin | Purchasing Agent(s) |
|---|---|---|---|---|---|
| McDonald's (Fast Food) | 186 | 132 | National | USA | Direct and corporate-approved supplier |
| Repsol YPF (Service Station Fast Food) | 100 | 38 | National | Spain | Direct and corporate-approved supplier |
| Burger King (Fast Food) | 27 | 22 | Greater Buenos Aires (GBA), La Plata, Pilar, Rosario | USA | Direct, corporate-approved supplier and importer |
| Petrobras (Service Station Fast Food) | 72 | 14 | National | Brazil | Direct and corporate-approved supplier |
| Il Gatto Tratorias (Pizzeria and Italian Restaurant) | 14 | 9 | GBA, Cordoba, Mendoza | Argentina | Direct and corporate-approved supplier |
| La Caballeriza (Steak House) | 10 | 8 | GBA, Mendoza, Santa Fe | Argentina | Direct |
| Mostaza (Fast Food) | 27 | 6 | GBA, Mar del Plata, Rosario, Puerto Madryn, Salta | Argentina | Direct and corporate-approved supplier |

Source: CLAVES

- The Restaurant (R) sub-sector is very dynamic due to the high rotation (openings and closings) of establishments. The growth of this sector in the past few years nearly matched that of the national economy. During economic expansions, it usually grows at higher rates, while in recession periods the drop is greater than that of the general economy. Three factors have heavily influenced this sub-sector:

  - a) Macroeconomic effect, due to economic stability and growth after 2002.

  - b) Wealth effect, since a higher per capita GDP encouraged greater expenditure in eating away from homes (which is still low, accounting for 6 percent of total average home expenses in Buenos Aires City).

- c) Microeconomic effect: people spending more time away from their homes, and the full incorporation of women to the workforce, which has increased the use of restaurants and take-outs.

- The growth of the restaurant sub-sector in 2006 is estimated to be around 6 percent. The development of the restaurant sub-sector is projected to follow more closely the development of the general economy.

- There are over 35,000 licensed eateries in the country, more than one-third of which are in Buenos Aires City and its suburbs. About 1,100 are fast food, 22,000 are restaurants, 12,000 are "*minutas*" (quick, home-style food) and over 2,000 are bars and cafes.

It is a very atomized (32,000 businesses operating 35,000 establishments) and vast sector with a growing level of professionalism. In general, low prices are far more important than quality. However, it is a sector with good potential as it is becoming more efficient.

**Table 8. Cuisine Offered in Tourist Areas of Buenos Aires City**

| **Type of Cuisine** | **Number** | **Percentage** | **Type of Cuisine** | **Number** | **Percentage** |
|---|---|---|---|---|---|
| Quick Food (Minutas) | 466 | 31.5 | Cocina de Autor (Chef's Signature) | 17 | 1.1 |
| International | 274 | 18.5 | Other | 14 | 0.9 |
| Traditional | 186 | 12.6 | Chinese | 12 | 0.8 |
| Steak House | 111 | 7.5 | All-You-Can-Eat | 9 | 0.6 |
| Pizza | 104 | 7.0 | Middle Eastern | 9 | 0.6 |
| Italian | 52 | 3.5 | French | 8 | 0.5 |
| Fast Food | 45 | 3.0 | Other Asian | 7 | 0.5 |
| Mediterranean | 38 | 2.6 | Mexican | 5 | 0.3 |
| Buenos Aires | 36 | 2.4 | Fusion | 5 | 0.3 |
| Spanish | 30 | 2.0 | Seafood | 5 | 0.3 |
| Regional | 20 | 1.4 | Other European | 4 | 0.3 |
| Japanese and Sushi | 19 | 1.3 | Vegetarian | 3 | 0.2 |

Source: CLAVES

- Restaurant chains are typically fast food and delivery companies, mainly operated through franchises. Those which are not fast food, pizza or delivery chains are very few and generally have a maximum of four stores.

- Although ethnic food (except for European) is quite limited in Argentina, the current trend shows a large shift, as demonstrated by the large number of restaurants that have opened recently.

## C. Institutional

**Table 9. Leading Institutional Caterers, 2005**

| Company Name | Estimated Sales (US$million) | Outlet Name & Type, & Number of Outlets | Location | Purchasing Agent(s) |
|---|---|---|---|---|
| Compass Catering | 30 | Industrial, Private Institutional | National | Direct through distributors |
| Gate Gourmet | 29 | Airline Catering | National | Direct through distributors |
| Central de Restaurantes, S.R.L | 12 | Industrial, Private Institutional | National | Direct through distributors |
| Sodexho Argentina, S.A. | 11.5 | Industrial, Private Institutional | National | Direct through distributors |
| Food Service | 10.5 | Industrial, Private Institutional | National | Direct through distributors |
| Integralco S.A. | 9.5 | Industrial, Private Institutional | National | Direct through distributors |
| Catering Argentina | 9.5 | Industrial, Private Institutional, Airline Catering | National | Direct through distributors |
| Sky Chefs Argentina | 5.5 | Airline Catering | National | Direct through distributors |

Source: CLAVES

- The Institutional sub-sector is more concentrated and less atomized than the Restaurant sector due to economies of scale. The top seven firms are responsible for 22 percent of its US$1.5 billion market and tend to be multinational in scope. Additionally, 62 percent of the Institutional sub-sector is located in Buenos Aires and the surrounding area.

- The Institutional sub-sector is composed of 80-100 companies. There are ten large ones which service mainly firms, airlines, hospitals and schools.

- Growth in event catering has followed that of the economy at large, while airline catering has grown twice as fast. Today there are three airline catering companies, whereas there was only one such company five years ago.

- Growth in private institutional catering has been over 6 times that of airline catering, due to a marked growth in demand for in-house cafeterias at large companies. Public institutional catering has been less influenced by the fluctuation of the economy, as food demand for schools, hospitals, etc. varies little over time. Combined, the two generate 80 percent of the sub-sector's total sales volume.

- Catering for events is serviced by approximately 20 companies, of which the first five account for 50 percent of the total (excluding hotels).

# IV. Competition

- Most companies prefer to use domestic products because they are fresh and of good quality. Imported products usually offer better quality and better packaging, but rarely lower prices.

- The U.S. enjoys strong brand name recognition, but American brands are not always necessarily imported from the U.S.; Heinz recently opened a factory in Venezuela selling “Latin American” versions of its sauces at lower prices, and Schreiber now imports cheese to McDonald’s from Brazil.

The following table shows the origin of total food and beverages for all sectors imported into Argentina:

**Table 10. Food and Beverage Market Share, 2006**

| Country | Value (US$ million) | Market Share (Percent) |
|---|---|---|
| United States | 27.3 | 4.2 |
| Brazil | 305.5 | 47.0 |
| Chile | 72.8 | 11.2 |
| Ecuador | 65 | 10.0 |
| Netherlands | 15.6 | 2.4 |
| Bolivia | 14.3 | 2.2 |
| Singapore | 13 | 2.0 |
| Belgium | 11.7 | 1.8 |
| Italy | 10.4 | 1.6 |
| Spain | 8.5 | 1.3 |
| United Kingdom | 7.2 | 1.1 |
| **Total** | **650** | **100** |

- Many imported products come from Europe (estimated food and beverage imports in 2006 will total approximately US$70 million), due to the popularity of Mediterranean cuisine. They usually have a good quality/price relation or good price and regular supply. Older generations have a stronger affinity with European culture, while youngsters (30 and younger) are more “Americanized”.

- Food and beverages imported from the United States account for about 10 percent of the HRI sector´s total imports, or around US$4 million.

- Most U.S. food and beverages are sold through retail and a smaller share through the HRI sector.

HRI establishments usually make their payments at 30/60-day terms. Imported products are often paid for within 30 days.

# V. Best Product Prospects

## A. Products Present in the Market Which Have Good Sales Potential

- Sauces, condiments, and, to a smaller degree, dressings
- Dry nuts, especially U.S. walnuts and almonds, which are larger in size and usually used in desserts and candied products
- Specialty cheeses
- Beer
- Fruit sauces and purees
- Sweet corn
- Pineapples
- Palm hearts
- Topical fruit
- Tuna fish
- Energy drinks
- Whisky, bourbon and liquors
- Coffee, tea and instant coffee

## B. Products Not Present in Significant Quantities But Which Have Good Sales Potential

- Herbs and spices
- Frozen strawberries for dessert sauces (come from Europe)
- Seafood such as king crab, fish sticks (pollack)
- Turkey
- Pork
- Wine (high-end restaurants)
- Instant batter mixes for pancakes, waffles, muffins and cakes

## C. Products Not Present Because They Face Significant Barriers

The following products are currently not imported into Argentina from the United States due to trade barriers or other restrictions**:**

- Sweetbreads
- Some fresh fruits

# VI. Post Contact and Further Information

For further information about this report or other marketing questions, please contact us at any of the following addresses.

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Additional information can be found in several of our other marketing reports. These include the Retail Food Report, Food Processing Sector Report, Frozen Foods Report, Tree Nuts, Dry

Foods and Kosher Products Reports, plus the Exporter Guide and Food Import Regulations Report (FAIRS). All of these can be obtained from our web site, http://www.fas.usda.gov.