

Argentina



Area ('000 sq km)¹: 2,800
(US 9,600 – EU25 3,981 – World 133,700)

Capital²: Buenos Aires
(Number of inhabitants: 13.5 million)

Population (million): 39
(US 296 – EU25 459 – World 6,000)

Median age³: 30 years

Nominal GDP (USD billion): 183.3
(US 12,487 – EU25 13,447 – World 44,183)

Nominal GDP (USD billion at PPP): 559.1
(US 12,487 – EU25 12,657 – World 59,763)

GDP per head (USD at PPP): 14,307.8
(US 42,129 – EU25 27,538 – World 9,962)

Currency³: Argentine peso (ARS)
(USD1 = ARS2.9)

Languages³: Spanish

Main religions³: Roman Catholic

Government type³: Republic

Sources: () Economic Intelligence Unit 2006 data,
(¹) World Bank 2005, (²) City Population, including Great
Buenos Aires area, (³) CIA Fact book



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ECONOMIC OVERVIEW

A high potential for the South American continent

Argentina has an important role within the South American continent, due to the size and natural richness of its territory, its open market economy, its highly qualified population and its market size. It is the 2nd economic market in South America. Argentina should attract more and more companies interested in the South American continent, either as a market entry point or as a part of a broader commercial expansion plan.

GDP AND CPI

GDP and CPI

	2002	2003	2004	2005
GDP growth (%)	-10.9	8.8	9.0	9.2
CPI (%)	25.9	13.4	4.4	9.6

Source: EIU, July 2006

In 2001, Argentina experienced one of the worst economic crises in its recent history. Political and social instability, the significant devaluation of the Peso and default of sovereign debt caused a collapse which undermined Argentina's economic variables. 2002 saw the economy shrink by 10.9%, with inflation hitting a peak of 40.9% according to official statistics. The social impact of the crisis was huge, leaving over 50% of Argentines below the official poverty line and well over 20% unemployed. But the inflation was controlled and the country managed to return to fragile growth in late 2002.

The path to recovery started in 2003 and the last three years have seen average GDP increases of around 9% per annum, bypassing the pre-crisis peak of 1998. In January 2006, Argentina paid off its debt obligations, amounting to SDR6.7 billion (USD9.7 billion), with the International Monetary Fund by using reserves of the Central Bank. As of January 2006, Central Bank reserves stood at USD18.5 billion and went up to more than USD27 billion during August. Having showed primary fiscal surpluses during fiscal 2003, 2004 and 2005, Argentina has already indicated a surplus of close to 4.91% of GDP for the first quarter of 2006¹.

1 Ministry of Economy



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Consumer price index has decreased since 2002 but doubled since 2004. In order to contain 2006 inflation levels, the Argentine Government is vigorously seeking to further develop price control agreements with industries. Despite these pressures, CPI index increased 5.8% during the first semester of 2006, and the government expects it to reach a 10% ratio by the end of the year.

The Argentine Government still needs to undertake economic actions, such as the reform of the financial and banking system, the increase in utility services tariffs and softening the distortion in relative prices, in order to return to sustainable growth.

UNEMPLOYMENT

A continuous decrease in unemployment is expected

Unemployment

	2002	2003	2004	2005
Unemployment rate (%)	22.5	17.3	13.6	11.6

Source: EIU, July 2006

Unemployment decreased from 22.5% in 2002 to 11.6% in 2005. Employment growth was driven by the manufacturing and construction industries between 2002 and 2004. During 2005, employment increased in all sectors of the economy. The majority of local companies expect to hire more people overall, with minor dismissals in the short term².

ECONOMIC FORECAST

A tempered economic outlook

Key economic forecasts

	2006	2007	2008
GDP growth (%)	6.8	4.2	3.4
CPI (%)	12.5	10.6	6.9
Unemployment rate (%)	11.1	11.0	10.7

Source: EIU, July 2006

For 2007 and 2008, GDP is still expected to grow but at a lower level and a continuous decrease in unemployment and CPI is predicted.



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REGULATORY ENVIRONMENT

A complex regulatory environment

FOREIGN DIRECT INVESTMENT

Positive climate for Foreign Direct Investment

FDI

	2002	2003	2004	2005
FDI (ARS bn)	6.6	4.8	12.5	12.2
FDI (USD bn)	2.1	1.7	4.3	4.2

Source: EIU, July 2006

Foreign direct investment is not restricted. Remittances of dividends abroad are also not prohibited. Companies are allowed to transfer monetary funds and/or pay services, for example, royalties, outside Argentina, on a monthly basis, provided that the amounts are equal to or lower than USD2 million. Any amounts in excess of this figure require prior authorisations.

Also, since 2005, the Argentine Government has imposed certain restrictions. For example, foreign investors are obliged to maintain the principal amount invested in the country for a certain period of time before it can be remitted abroad. Financial loans must also meet certain immobilisation requirements.

PROPERTY / REAL ESTATE REGULATIONS

Leasing regulations

Leasing regulations are far more complex than in other countries worldwide. Regulations generally limit rental increases and evictions of tenants. In addition, Argentine laws governing leases state that agreements must be for a minimum term of three years for retail property (except in the case of stands and/or spaces for special exhibitions) and that lease terms may not exceed ten years, except for leases that include a purchase option.

Store openings

The Argentine retail and real estate industries are subject to extensive building and zoning regulations by various federal, state and municipal authorities. These regulations affect land acquisition, development and construction activities, including the size of selling space that can be opened in certain locations and sometimes require a market and environmental impact research report.



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Development activities are subject to risks relating to the inability to obtain, or delays in obtaining all necessary zoning, environmental, land-use, development, building, occupancy and other required governmental permits and authorisations. In addition, government licenses are required for the operation of retail channels and customary business licenses are required by local governmental authorities.

It is important to point out that, with the exception of very few jurisdictions, retailers are allowed to operate stores/shopping malls 365 days, including national holidays.

OTHER REGULATIONS

Competition law
Commercial Practices Code
(CPC)

Consumer Defence Law (CDL)

Defence of Competition
Law (DCL)

The CPC (put into force at the end of the 90s) regulates commercial agreements between retailers and suppliers. It includes provisions for equal treatment under similar circumstances, procedures for debits, credits and rejection of merchandise, use of supplier brand names and product images, implementation of joint logistics and administrative efficiency programmes and interruption or termination of commercial relationships.

The CDL regulates the nature of the information to be given to consumers as well as consumers' rights such as health protection, terms of sale, product warranties, forms of sale (mail and/or on credit etc.), abusive and/or legally ineffective clauses and responsibility for damages, among other issues.

Acts and behaviour related to the production or trade of goods and services which may limit, restrict or distort competition or access to markets or constitute abuse of a dominant position in a market, in such a manner which may result in damage to the general economic interest are prohibited and penalised.

If a merger or acquisition of business units or interests take place and the aggregate revenue for the country obtained by companies involved exceeds two hundred million pesos (approximately USD65 million), the transactions giving rise to such revenue must be notified to the Judging Board for the Defence of Competition for examination, either prior to, or during the week after the execution of the agreement, the publication of the acquisition or exchange offer or the acquisition of a controlling share. Upon notification, the Judging Board is expected to consider its approval in a short period of time. Lately, certain transactions have experienced significant delays in completing the approval process due to administrative reasons, difficulties in obtaining



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Law on Fair Trading

the proper number of members to form a quorum at the Judging Board (5 members) and/or legal actions started by persons supposedly affected by the proposed transaction.

This law governs the manner in which merchandise is identified, products are packaged and the information that packaging must contain. It also regulates the manner and type of information to be communicated to consumers by means of advertising, sweepstakes and/or other forms of promotional activities.

Taxation

At the national level, taxes are administered by the Federal Public Revenue Administration. Provincial and municipal taxes are levied and collected under powers derived from the applicable local regulations and governments.

Income Tax

Argentine legal entities and residents pay tax on total income from both Argentine and foreign sources, being able to claim as a tax credit any similar taxes actually paid abroad. Tax rate for corporations is currently at 35%.

Argentina has signed tax treaties with different countries, such as the Netherlands, France, Germany, Italy, Spain and the United Kingdom.

Minimum Presumed Income Tax (MPIT)

Local companies are subject to MPIT, which is assessed at a rate of 1% on the tax value of the company's assets at the end of each fiscal year. The income tax corresponding to the same fiscal year may be recognised as a payment on account of this tax. Excess MPIT over income tax has to be paid and may be carried forward and applied as a payment on account of the income tax determined for any of the next ten fiscal years.

An additional annual tax is levied on the equity of a domestic company if its shares belong to a foreign entity. The applicable rate is 0.5%.

VAT

The general rate of 21% is applied on the sales value of most products and services. This tax is also applicable to imports. Exports are VAT exempt. In addition, some specific goods and services are exempted (for example, bread, water and milk) and others are taxed at a lower 10.5% rate.



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Excise Taxes

This tax is levied on sales of a wide variety of items like tobacco, wines, soft drinks, lubricants, cosmetics, perfumes, jewellery, among others. The basis of assessment and rates vary with each item. Rates vary between 8% and 20%, although exceptions exist like cigarettes (60%).

Turnover Tax

This tax is levied at provincial jurisdiction level on the gross revenues generated from activities carried out within each jurisdiction. Many consumer goods companies with industrial activities are tax exempted. The rate for consumer goods applicable to rest of CPG (Consumer Packaged Goods) companies is 1.5% in Buenos Aires Province and 3% in the City of Buenos Aires. Average rates for wholesale and retail activities in most jurisdictions are around 3%.

Tax on Financial Transactions

Amounts credited or debited on bank accounts are subject to this tax at a general rate of 0.6%. Certain other financial transactions affected without using bank accounts are taxed at a rate of 1.2%.

Inspection, Safety and Hygiene Rates

These are rates which the municipalities charge for services they render or can potentially render to business entities within their jurisdictions. They vary from one municipality to another and depend on the type of activity. These rates usually generate strong negotiation between retail and consumer companies and municipalities due to the high level of charges the latter try to impose.

Foreign Trade

One of the country's policies is to increase exports through incentives in order to help overcome its balance of payment difficulties.

Imports

The level of import duties currently ranges between 0-35% – taxable basis is Cost Insurance Freight (CIF) – **except in cases where a specific minimum duty is applied or which involve merchandise with a specific treatment.**

In addition to customs duties, imports are also subject to a so-called “statistical rate” (maximum of USD500 per shipment), VAT at a standard rate of 21% plus a further VAT collection (up to 20%). Some goods are also subject to excise taxes. Withholdings of turnover tax (up to 11%), VAT and income tax are usual for imports.



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Exports

Since 1991 Argentina is a full member of the Mercado Común del Sur (MERCOSUR). MERCOSUR is the common market formed by Argentina, Brazil, Paraguay and Uruguay as full members (and Chile, Bolivia and Venezuela as associate members) created with a commitment to gradually eliminate barriers on exchange of goods and services between these countries. Noteworthy reductions have already been made and most of the goods originating from member countries are not levied with custom tariffs.

In the case of export transactions, goods are valued based on Free On Board clause.

Definitive exports of goods outside MERCOSUR are subject to export duties. The rates vary from 5% to 20% depending on the tariff code of the merchandise.

Following are some examples of the most important promotional customs regimes applicable to export operations:

- **Draw-back:** under this mechanism, it is possible to obtain total or partial restitution of taxes paid on imports of materials that will be used to produce goods that will in turn be marketed at foreign locations.
- **Rebate:** this benefit permits total or partial restitution of amounts paid for domestic taxes on goods exported for consumption on an onerous basis or services provided in connection with these goods. This regime is compatible with the draw-back regime.

It is now compulsory to bring any foreign currency received for the sales of Argentine products into Argentina for negotiation.



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DEMOGRAPHICS AND CONSUMER BEHAVIOUR

POPULATION EVOLUTION
Slowing population growth

Population

	2002	2003	2004	2005
Population (m)	37.8	38.2	38.6	39.1

Source: EIU, July 2006

The growth rate of the Argentine population is expected to fall gradually. This is due to the drop in the birth rate, which is partially offset by a drop in the rate of mortality. This moderate demographic growth, together with the vast size of the country, leads to a population density of less than 20 inhabitants per square kilometre³.

POPULATION BY AGE GROUP
An economically active population

Age profile

% of total population	1999	2004	2009 (f)	Trend
0 – 14 years	27.2	26.0	24.4	↓
15 – 64 years	62.5	63.6	64.8	↑
Over 65 years	10.3	10.4	10.8	↑

Source: EIU, July 2006

Population growth trends also explain the decrease in the relative population under 15 years of age and the increase in the population over 65 years of age⁴. Currently, 46% of the population is economically active while the adult illiteracy rate is set at 2.6%⁵.

3 Book issued by Latin American economic investigation foundation (FIEL), "Planning the future: Argentinean families and their decisions on consumption, saving and human resources investment"

4 Instituto Nacional de Estadística y Censos (INDEC), Demographic projections and estimations report. Argentina. 1950-2015

5 World Development indicators (World Bank)/INDEC



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URBANISATION OF THE POPULATION

A largely urban but geographically polarised demographic

Urban/Rural split

% of total population	1999	2004	2009 (f)
Urban	88.1	89.4	91.2
Rural	12.0	10.6	8.8

Source: EIU, July 2006

33.8% of the population falls under the poverty line (measured as of the second half of 2005). This population is mainly located in the North-East (54%) and North-West (48%) regions of the country. In the Province of Buenos Aires 30.9% of the population live under the poverty line⁶.

INCOME/BUYING POWER

Rising incomes and consumer confidence

Monthly average (ARS)	Income	Income growth	Expenditure	Expenditure growth
2002	806	N/A	272	N/A
2003	828	2.7	403	48.2
2004	1,032	24.6	471	16.9
2005	1,286	24.6	567	20.4

Source : ACNielsen: Master sample AC Nielsen – 1596 houses (December – February 2005)

Consumption levels decreased significantly during 2001 and 2002, not only due to the severe economic crisis but also due to consumer anxiety about future developments of economic crisis.

However, this trend was reversed over 2003, when consumer expenditure increased 48%, partly in response to rising inflation. Salaries have begun to rise to reflect the effect of inflation and new wage increases introduced during 2006 may impact directly on consumption and saving levels.

Today, there is a favourable macroeconomic environment for Argentine consumers, since the local economy is growing faster than the regional average and consumers have an optimistic outlook⁷. Indeed, average monthly expenditure over 2004-05 increased by nearly 20%, from 471ARS to 567ARS and this trend is set to grow in coming years⁸.

6 INDEC

7 Source: AC Nielsen, 2006

8 Source: AC Nielsen, 2005

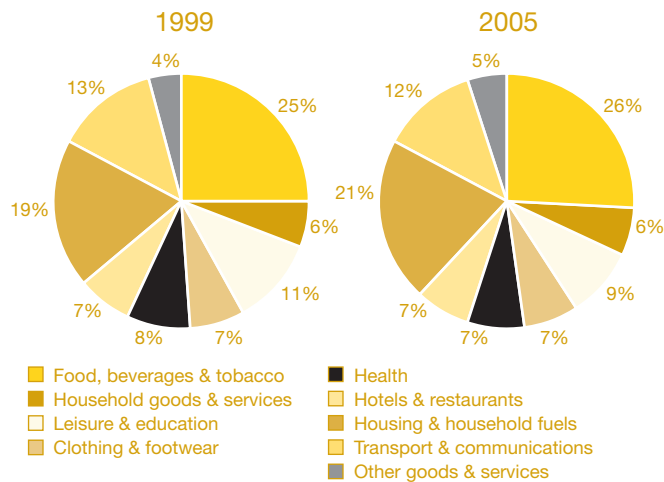


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CONSUMER BEHAVIOUR

Recovering consumption patterns

Average household spending patterns



Source: EIU, July 2006

This table clearly shows that by 2005, Argentine consumption patterns had returned to pre-recession patterns. Argentine consumers recovered their historical purchasing behaviour in less than 3 years. Consumption has recovered by 15% in all areas since the 2001 crisis, even for non-basic food items such as frozen food, desserts, chocolates and cookies⁹. The basic household basket now represents lower share of Argentine expenditure. In the low-income bracket, the share of expenses on the essential basket dropped from 59% last year to 57% in 2006. Similarly for the middle-income bracket, basic expenses in 2005 represented 44% of total income against 38% in 2006¹⁰.

In terms of total sales since 2001, revenue for basic categories of food, beverage and cleaning products increased 99% as a result of an increase in prices. This recovery in prices has generated a slowing down of consumption level in terms of volume in recent months¹¹.

Food consumption increased 9% in 2005. Cosmetics products showed a 19% increase. Cleaning products increased only 5% because certain manufacturers fraction products in smaller quantities. Beverage consumption levels increased 20% due to the launch of new products, such as flavoured waters and returnable containers¹².

9,11,12 Source: AC Nielsen, 2005

10 Source: AC Nielsen, 2006



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Increasing consumption
of added value products

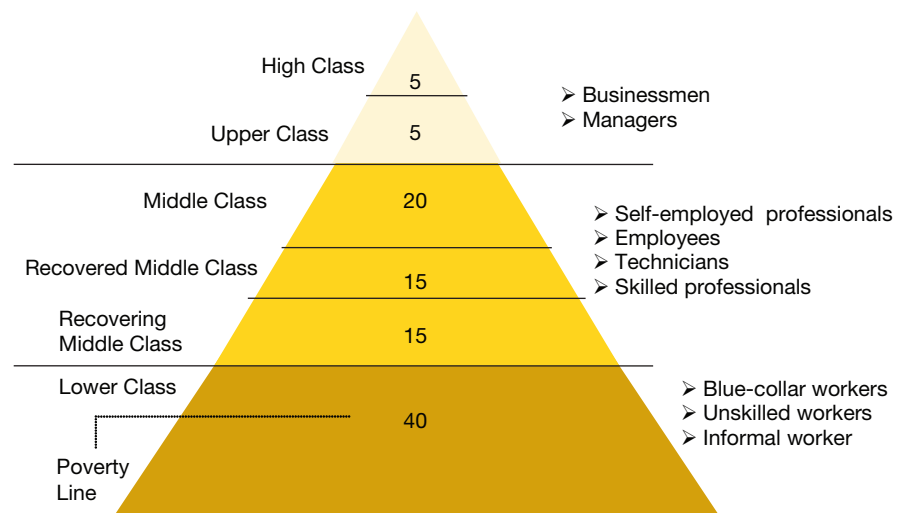
Positive changes in
social pyramid

The categories with the greatest growth of consumption in 2005 were: liqueurs, cookies, cereals and instant coffee, and those with the largest increase in sales value were liqueurs, powdered milk and instant coffee¹³.

Increasing consumption of added-value products

2005 saw the return of added value products on the shelves. Products that had become a luxury for consumers after the devaluation recovered a large part of the lost ground and in some cases tripled sales. This category of non-basic consumer goods (from water to frozen foods and deodorants) ended 2005 with an 11% growth. Within this category, the greatest growth was for products such as isotonic beverages, premium beers and health-related food (i.e. yogurts)¹⁴. Premium brands have also followed a strong recovery from 2005 on.

2006 Social Pyramid



Source: CCR Argentina

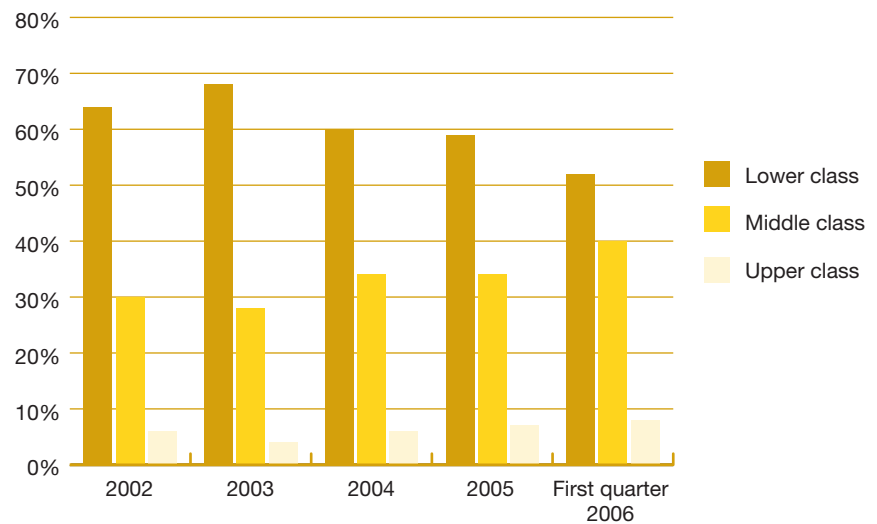
¹³ Source: AC Nielsen, 2005

¹⁴ Source: CCR, 2005



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Average expenditure by social segment



Source: AC Nielsen

Credit-fuelled middle class consumption

The salaries of skilled professionals, technicians and self-employed professionals recovered purchasing power by the end of 2005 and in the first half of 2006. Thus the middle class returned to spend on luxury or non-essential products, thus recovering part of the consumption habits they had had before the crisis of 2001¹⁵.

Wage increases recorded during last years are leading the middle class to expand (from 34% in 2005 to 40% in 2006) and spend more on leisure activities such as dining-out and entertainment, purchase of clothes, paying off debts and loans and purchasing high-tech equipment¹⁶.

Of the money left over after covering basic expenses, 54% of the people spend it on outings & entertainment, 42% on clothing, 36% to cover credit card expenses and repay loans, 35% on home improvements and 35% in savings¹⁷.



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The majority of the middle class is indebted and these debt commitments represent approximately 30% of their salaries. By and large, purchases are made through some form of financing, such as credit card and/or non-interest bearing instalments. Without credit financing, the purchasing power of the middle class would drop by approximately 30%. Two-thirds of the financed purchases are directed to food and essential expenses while the remainder is applied to higher value goods (home appliances, furniture, electronics, etc) or personal loans¹⁸.

Emerging consumption pattern for working women

A recent study shows that 46% of Argentine women work outside the home and this proportion declines as one moves down the social pyramid. These working women spend an average of 7% more than those women who are exclusively homemakers and shop 7% less frequently. Most of women who dedicate a major portion of their time to work are aged between 25 and 49, and like to decorate, be active, keep informed and consume cosmetics, jewellery, books, furniture, home appliances, music and clothes. In this connection, the study highlights that women who keep in good shape assign 12.4% of their basic household budget to buy beauty products, where the preferred items are cold creams¹⁹.

Consumer expenditure

	2003	2004	2005
Consumer expenditure: Total (USD m)	81,802	96,189	112,448
Consumer expenditure (% change pa)	29.7	17.4	16.9

Source: EIU, July 2006

**Lifestyles/
Shopping habits**
Continuing preference for small-scale groceries

At the end of 2000, sales at supermarket and hypermarket stores represented a bigger chunk of total consumer sales compared to sales at small family-owned groceries. This was facilitated by the opening of new outlets and the transformation of small family-owned groceries into small self-service outlets. This trend, however, reverted in recent years as the drop of population income modified consumer habits. Demand not only shrank but the public could no longer cover its needs with purchases every two weeks or every month as it used to do at larger outlets²⁰.

18 Source: Oscar Liberman – Fundación Mercado, 2006

19 Latin Panel Argentina

20 Key Market Argentina Report



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After the 2001 crisis, consumers shifted to shopping at small family-owned groceries and self-services, favouring their proximity and a false perception that they offered lower prices. This trend was strengthened by the fact that these outlets had developed an ever-larger assortment of products. Consumers also became more rational, avoiding purchasing on impulse or for stocking reasons²¹.

All social classes buy at small-owned groceries and self-services. However, this channel is most used by lower-income consumers (blue collar, unskilled and informal workers), representing approximately 84% of their purchases²². Currently, approximately 50% of the middle class has taken to shopping in hypermarkets and supermarkets again (leaving self-services and small family-owned groceries), accompanied by an increase in the consumption of durable goods and thanks to credit based financing. This recovery of customers is accompanied by greater aggressiveness in the commercial policies undertaken by the large retail chains²³.

The following chart shows the drivers that consumers identified as key when deciding where to buy. Closeness and quality resulted as key drivers for the majority of consumers:

Format	1st place	2nd place
Green grocery	Closeness 59%	Quality 49%
Butcheries	Quality 80%	Closeness 50%
Small family-owned self-services	Closeness 69%	Low price 37%
Grocery	Closeness 89%	Quality 16%
Hypermarket	Discount 37%	Closeness 31%
Supermarket	Closeness 63%	Discount 35%

Source: AC Nielsen – Greater Buenos Aires home survey



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Brand/Price sensitivity *Price-conscious consumers*

Following the 2001/2002 crisis and despite the strong recovery of premium brands during recent times, average Argentine consumers continue to be very influenced by price. Among consumers with highest purchasing power, 50% believe that small-owned groceries and self-services and supermarkets have similar prices, and 19% believe that the prices in small-owned groceries and self-services are cheaper than in the chains. In the lower-income social levels, 33% believe that the supermarkets are cheaper than small-owned groceries and self-services, and 38% estimate that the prices are the same at both. This means that 71% of consumers do not perceive price differences in favour of the small-owned groceries and self-services. However, they do continue to stay away from the supermarkets²⁴.

If prices at the cheaper supermarket chains are compared with small family-owned groceries and self-services, economies of over 15% can be made by shopping in the supermarket chains²⁵.

The rate of inflation and its impact on consumers is one of the issues that the government is taking action about. For example, coordination between the government and supermarket chains has helped generate an offer of basic product baskets at reduced and controlled prices, to assist in making cheaper purchases²⁶.

Cash transactions represent 50% of retail sales

Over the past two years, some banks and large retailers have joined hands to launch promotions for the sale of products with discounts using credit cards in retail stores, generating prices even lower than cash payments. This has helped to attract clients, increase the use of banking services and ensure customer loyalty.

Nevertheless, cash sales represent approximately 50% of total large retailers' sales in the City of Buenos Aires and metropolitan area and 60% of total large retailers' sales in the rest of the country.

Furthermore, in order to use banking services to reduce the level of the underground economy in Argentina (many small family-owned groceries sell only in cash, which hinders the determination of the corresponding taxes), the Tax Authorities have resolved to reimburse customers a percentage of VAT on each purchase made with a debit (5%) or credit (3%) card.



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MAJOR CONSUMER GOODS PLAYERS

An expanding consumer goods sector

RETAIL AND CONSUMER SECTOR PERFORMANCE

The strength of internal demand, combined with foreign purchase commitments, is generating a singular scenario for the expansion of Argentina's manufacturing industry segment²⁷.

In March 2006 the Industrial Monthly Index (the Spanish acronym is EMI) recorded a 7.2% increase over 2005 (non-seasonal value). This indicator shows the optimism of companies concerning the development of local and international demand²⁸.

Major consumer goods companies

Ranking	Company name	2005 Gross Sales (ARS m)	2004 Gross Sales (ARS m)	2004-2005 (%)	Category
1	Arcor	3,900	2,790	39.8	Food
2	Massalin Particulares (Altria)	3,207	2,350	36.5	Tobacco
3	Quilmes ¹ Industrial	2,860	2,280	25.4	Beverages
4	Molinos Río de la Plata	2,767	2,949	-6.2	Food
5	Sistema Coca Cola (Bottlers)	2,100	1,900	10.5	Beverages
6	Unilever de Argentina	2,010	1,384	45.2	Cleaning, cosmetics & food
7	Mastellone Hermanos (La Serenisima)	1,599	1,385	15.5	Milk and dairy products
8	Nobleza-Piccardo (BAT)	1,470	1,289	14.0	Tobacco
9	SanCor	1,452	1,204	20.6	Milk and dairy products
10	Danone	1,447	1,650	-12.3	Food & beverages

Source: MERCADO – June 2006

¹ Inbev announced acquisition of majority shareholding of Quilmes



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Food

Ranking	Company name	2005 Gross Sales (ARS m)	2004 Gross Sales (ARS m)	2004-2005 (%)
1	Arcor	3,900	2,790	39.8
2	Molinos Río de la Plata	2,767	2,949	-6.2
3	Danone	1,447	1,650	-12.3
4	Nestlé Argentina	1,082	950	13.9
5	Ledesma (sugar and byproducts) ⁽¹⁾	851	783	8.7

Source: MERCADO – June 2006
(¹) including sales of paper division

Strong competition within the ice-cream segment and ice-cream related products is an emerging trend. It is estimated that sales revenues of ice-cream will amount to ARS600 million during 2006 and an annual growth of 20% is expected. Arcor will invest USD170 million in plants, machinery and purchases in 2006 and 2007 to expand the ice-cream business in Latin America. Nestlé is developing its own chain of home-made style ice-cream shops, investing ARS14 million to strengthen its sales force. Quilmes and Freddo (a local ice-cream premium brand retailer) closed a deal to launch an ice-cream with a beer flavour. Freddo will invest ARS6 million in the expansion of its network of stores in Argentina and abroad, especially Mexico and Colombia²⁹.

Beverages

Ranking	Company name	2005 Gross Sales (ARS m)	2004 Gross Sales (ARS m)	2004-2005 (%)
1	Quilmes Industrial	2,860	2,280	25.4
2	Sistema Coca-Cola	2,100	1,900	10.5
3	Peñaflor	392	333	17.7
4	Agua Danone ¹	345	305	13.1
5	Pernod Ricard Argentina	320	82	290.2

Source: MERCADO – June 2006
¹ Belonging to the Danone Group.



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The consumption of regular beverages increased 15% in 2005 in comparison to 2003. Among the middle and upper middle classes of Greater Buenos Aires, the consumption of “low calorie” beverages is 67% greater than the consumption of these products in the rest of the country. Conversely, average consumption of regular beverages is 18% lower than in the rest of the country³⁰.

In 2006, Quilmes will invest USD20 million in Godoy Cruz (Mendoza) in a Pepsi bottling plant. The company will also disburse USD15 million to double the manufacture of malt at Tres Arroyos (Province of Buenos Aires). Nestlé will spend USD10 million in 2006 to enter the market of flavoured waters with a new plant in Moreno (Province of Buenos Aires)³¹.

Electronics

Ranking	Company Name	2005 Gross Sales (ARS m)	2004 Gross Sales (ARS m)	2004-2005 (%)
1	BGH	1,155	537	115.1
2	New San (Sanyo)	438	113	287.6
3	Whirlpool	257	175	46.8
4	Radio Victoria Fueguina	243	200	21.5
5	Frimetal	160	95	68.4

Source: MERCADO – June 2006

In April 2006, BGH announced the launch of BGH Feelnology, a new brand of electronic products, including plasma and LCD televisions, Home Theaters and DVD players. In addition, during 2006, it has invested in new production lines at its Tierra del Fuego plant.

NewSan S.A. currently hold the licenses for Sanyo, Aiwa, Sansui and other national own-brands. It operates two plants in Tierra del Fuego³².

30 Source: Gustavo Quiroga Investigations, 2006

31 Source: Consejo Técnico de Inversiones S.A. Tendencias Report, December 2005

32 Company data (webpage)



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Cleaning and Cosmetics

Ranking	Company name	2005 Gross Sales (ARS m)	2004 Gross Sales (ARS m)	2004-2005 (%)
1	Unilever de Argentina ¹	2,010	1,384	45.23
2	Procter & Gamble ²	1,120	540	107.41
3	Avon	681	585	16.41
4	SC Johnson & Son	410	389	5.40
5	Kimberly Clark Argentina	390	385	1.30

Source: MERCADO – June 2006

¹ Including sales of the foods division, representing approximately 30%.

² 2005 sales include Gillette.

Unilever has been the leading company for cleaning products for 30 years. In 2006 Unilever moved its regional Center for Innovation of the Sedal brand to Argentina. This centre is responsible for developing new products and for the communications strategy for the region. Unilever operates five plants in different provinces and two distribution centres³³.

Procter & Gamble (P&G) owns a plant at Pilar, Buenos Aires and another at Villa Mercedes, San Luis. P&G is currently assessing the possibility of manufacturing Ariel cleaning products in Argentina instead of the current procedure of importing them from Brazil.

Dairy products

Ranking	Company name	2005 Gross Sales (ARS m)	2004 Gross Sales (ARS m)	2004-2005 (%)
1	Mastellone hermanos (La Serenisima)	1,599	1,385	15.45
2	SanCor	1,452	1,204	20.60
3	Suces. de Alfredo Williner (Ilolay)	400	360	11.11
4	Molfino Hermanos	352	310	13.55
5	Milkaut	291	221	31.67

Source: MERCADO – June 2006



Argentina

Domestic demand of dairy products increased 11% in 2005 in comparison with 2002, while exports amounted to USD600 million, nearly doubling the figures of 2002³⁴. In Argentina, the yoghurt category is a very important segment in the dairy products sector, as compared to other countries. The “healthy” yoghurt market grew 140% in 2005, in comparison with 11% for basic yoghurts³⁵. During 2006, Sancor will invest USD15 million in the reconditioning of plants and production of yoghurts³⁶.

MAJOR RETAIL PLAYERS

A strong retail segment

Ranking	Company name	2005 Gross Sales (ARS m)	2004 Gross Sales (ARS m)	2004-2005 (%)	Category
1	Cencosud ¹	5,345	3,902	36.98	Hypermarket Supermarket
2	Carrefour	4,471	4,300	3.98	Hypermarket Supermarket Discount
3	Coto	2,531	2,224	13.80	Supermarket
4	Imp. y Exp.de la Patagonia (“La Anónima”)	1,306	1,032	26.55	Supermarket
5	Wal-Mart	1,022	806	26.80	Hypermarket
6	Frávega	924	615	50.24	Home equipment
7	Garbarino	902	615	46.67	Home equipment
8	Maycar	755	332	127.41	Wholesaler
9	Casino (Libertad)	750	748	0.27	Hypermarket Discount
10	Makro	747	774	-3.49	Wholesaler

Source: MERCADO – June 2006

¹ Including sales of commercial centres and shopping malls.



Argentina

After the acquisition of Disco, Veá and Plaza Veá, Cencosud Group (a Chilean corporation that owns Jumbo supermarket chain, Easy DIY and Unicenter) became the leader of the retail sector, which had historically been led by the French group, Carrefour, made up by Carrefour, Supermercados Norte and Día %.

Cencosud now operates 17 shopping malls and is planning to open a new shopping mall in Mar del Plata and to invest ARS150 million during 2006. Second shopping mall operator is Alto Palermo, which runs 9 centres, mainly in Buenos Aires. Disco is the leader in innovative IT solutions due to an investment plan sustained along several years³⁷.

Carrefour plans to invest approximately 250 million pesos up to 2007 to open six new hypermarkets in the country and remodel the current 28 outlets³⁸.

Coto is the largest local player and has stores in the City of Buenos Aires and Greater Buenos Aires.

La Anónima is leader in Patagonia, both in the number of stores as in its sales level. La Anónima is currently expanding to other regions of the country; for example, it has purchased Supermercados Quijote in 2004, a local chain located in the Province of Santa Fé³⁹.

During 2006, Wal-Mart has already opened three new stores and it expects to open three more during this year.

Out of a total consumer goods market valued at ARS37 billion in 2005, over 60% corresponds to goods distributed through wholesalers to various formats, such as self-service, convenience store groceries, kiosks, drugstores and toiletry stores and shops selling cleaning products. The larger retail supermarkets and hypermarkets and hard discount stores represent 39.8% of the market. The share of the wholesalers and their customers grows out of Buenos Aires City where the sales between wholesalers and supermarkets are shared equally, while the incidence of wholesalers in the Greater Buenos Aires area amounts to 74%⁴⁰.

Retail sales
*Recovering retail sales and
modern retail formats*



Argentina

Retail sales

	2003	2004	2005
Retail sales (USD m)	35,218	41,563	48,328
Retail sales growth (% p.a. in ARS)	4.5	13.9	5.3
Retail sales: food (USD m)	16,506	19,203	N/A
Retail sales: non-food (USD m)	18,712	22,360	N/A

Source: EIU, July 2006

The supermarket/hypermarket segment represents approximately 10% of the Argentine GDP. This segment grew steadily until 1998, but thereafter growth was volatile until 2001. The trend has been reversed since 2002; however, a large part of the recovery recorded during 2003 and 2004 is due to the increase in prices that occurred after the devaluation⁴¹.

Only 15 companies of the segment are important, of which 3 operate hard discounts and the rest are directed to the formats of supermarkets, self-services and hypermarkets⁴².

Although the number of products on sale basically depends on the selling space available and the product policy adopted by each company; the recession, the search for lower costs and the devaluation has obliged companies to optimise the number of products sold⁴³.

Breakdown by number of stores for main players

Number of stores	Hypermarkets	Supermarkets	Hard discount stores
2005	91	731	491

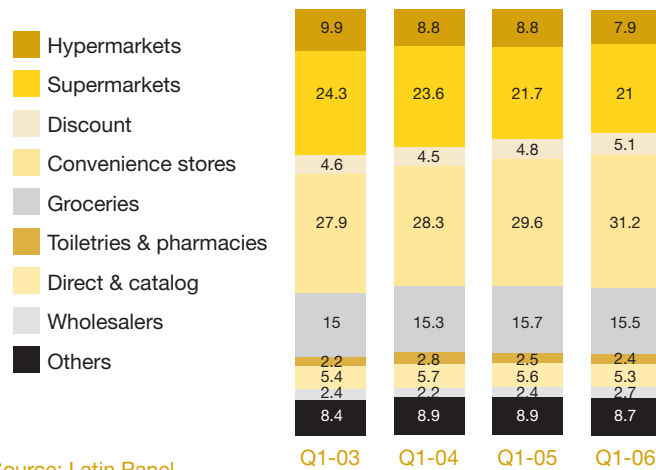
Source: Company data

In 2004, there were around 106,000 retail sales outlets for food items, a large number of which also sold other products for family consumption, basically cleaning products and toiletry. Out of that total, 14,000 shops, belonging to 9,000 companies, use the self-service format⁴⁴.



Argentina

Market share by retail format



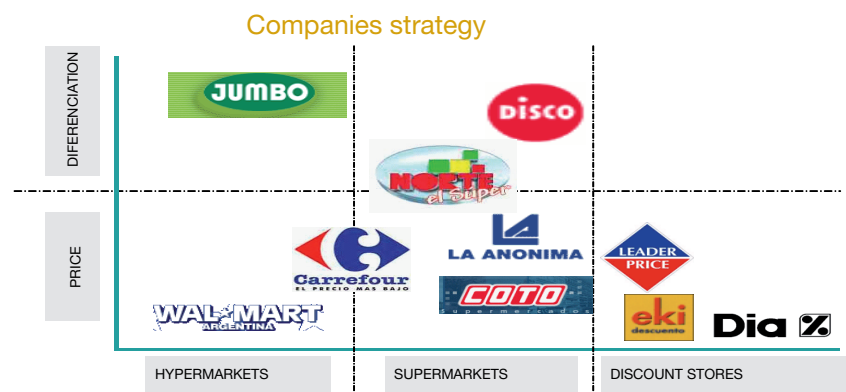
Source: Latin Panel

At the end of the 90s, the supermarket and hypermarket channel represented approximately 50% of the market, a similar level to that registered in developed countries. Currently, and due to local crisis this share represent only 40%.

Gaining a competitive advantage for supermarkets and hypermarkets⁴⁵

The strategies of the various supermarkets and hypermarkets to gain a competitive advantage vary from lower price to differentiation through quality and service.

The following picture shows the different competitive strategies of main supermarket and hypermarket chains:



Source: Key Market Argentina



Argentina

Carrefour holds specific events to show that it is the cheaper option; for example: “Week of cleaning goods”, where prices in that category are between 15-20% cheaper than competitors’. Both Carrefour and Norte have reinforced marketing and sales of their own brands in order to obtain higher profit margins. Similarly, Wal-Mart has launched a range of programs to reinforce its lower price strategy. It offers price reductions over an extended time; sale of items with a gift product or additional quantity over a limited time and reimbursement of twice the value of the product if the customer is not satisfied with it.

Disco’s competitive advantage, on the other hand, is gained through customer recognition, due to the high quality of its products and the wide range of exclusive services it renders. One of the main characteristics of its strategy is the segmentation of its stores into two formats: “Service Oriented” and “Price Oriented”, offering various services to the customer in accordance with local, regional and environmental influences. “Service Oriented” stores made up by the Disco brand are aimed at customers willing to pay a special price in exchange for higher quality and a wider variety of products and service. “Price Oriented” stores are made up by the Super Vea, Plaza Vea and Minisol brands.

Jumbo supermarkets have the highest penetration in the upper class population and the greatest customer loyalty. Focused on client service, Jumbo is currently the leader in the quality segment. Jumbo has launched a customer loyalty initiative through the “Tarjeta Jumbo Más” purchasing card that accumulates points that can be redeemed for products.

Food retail channels

Hypermarkets

A small segment dominated by foreign players

Group name	Store brand	Number of stores (2005)
Carrefour	Carrefour / Norte	28
Cencosud	Jumbo / Disco / Vea / Plaza Vea	24
Casino ¹	Libertad	13
Wal-Mart	Wal-Mart	12
Coto	Coto	11
Supermercados Toledo	Toledo	2
Cooperativa Obrera	Cooperativa Obrera	1
TOTAL		91

Source: company data

¹ It also has 20 minimarkets.



Argentina

Supermarkets
Also led by foreign player

Group name	Store Brand	Number of stores (2005)
Cencosud	Disco Vea & Plaza VEA	294
Carrefour	Norte	114
Coto ¹	Coto	78
Imp. Y Exp.de la Patagonia ²	La Anonima /Quijote	95
Millan	Atomo Supermercados	66
Cooperativa Obrera	Cooperativa Obrera	54
Supermercados Toledo	Toledo	30
TOTAL		731

Source: Company data

¹ It also has 20 minimarkets

² It also has 11 minimarkets

Discount stores
A segment showing
promising growth

Group name	Store Brand	Number of stores (2005)	2005 Gross Sales (ARS m)
Carrefour	Supermercado Dia%	319	600
Eki	Eki Descuento	144	179
Casino	Leader Price	25	N/A
Supermercado Toledo	Ahorro Fácil	3	N/A
TOTAL		491	

Source: Company data and MERCADO – June 2006

This retail segment grew dramatically from 1998 to 2003 in terms of stores and sales. Since 2003, growth rates have stabilised in accordance with other segments.

Eki Descuento began operations in 1996 with two stores and from then on has had a sustained growth until 2001. In the past two years, 15 new stores were opened⁴⁶.



Argentina

Wholesale chains Rapid growth in recent years

Group name	Store brands	Number of stores (2005)	2005 Gross Sales (ARS m)
Maycar	Vital	14	755
Supermercado Mayorista Makro	Makro	15	747
Maxiconsumo	Maxiconsumo	25	611
Diarco	Diarco	19	630

Source: Company data and MERCADO – June 2006

Vital has more than 80 years of wholesale business experience. Vital has a fast access telemarketing system that allows customers to make long distance purchases with delivery to the interior of Argentina, with the incentive of promotions, discounts and credit card payments⁴⁷.

Makro Argentina sells a large volume of food and non-food products but only to registered customers and is not open to the general public⁴⁸.

Maxiconsumo has the greatest number of stores in Argentina. It has its own brands and labels like: Marolio and Freshy (food and beverage products); Esencial and El Buda (cleaning and home care), and Patricia Allen and Just Baby (perfume and hygiene)⁴⁹.

Non-food retail channels Home equipment A strong emerging trend

Company name (Store brands)	Number of stores (2005)	2005 Gross Sales (ARS m)
Frávega	69	924
Garbarino	49	902
Ventura	N/A	141
Saturno Hogar	14	165
Electrónica Megatone (Red Megatone)	181	96
Marquez Group	151	N/A

Source: Company data and MERCADO – June 2006



Argentina

DIY Growing popularity

Fravega's strategy is to be the leader in all the product segments favoured by customers. As hi-tech products are fashionable at the moment, Fravega is responding with the development of Frávega Tec and Big Frávega. The former is an area of 200 square meters selling state-of-the-art sophisticated technology and the latter is a gigantic space with a wide variety of products. Fravega plays on consumer pleasure and service and its strategy is client focused, giving financing solutions as well as special advice to consumers.

Group name (Store brands)	Number of stores (2005)	2005 Gross Sales (ARS m)
Easy (Cencosud Group)	27	326
Blaisten	9	126
Barugel Azulay	7	69

Source: Company data and MERCADO – June 2006

Easy provides all necessary home furnishings and products in a self-service format under one roof, thus allowing the customer to save time. In addition, it offers expert advice on products and their use at the customer's request, rental of equipment, free wood cutting, carpet cuts, colour centre for preparing the paint and instruction courses⁵⁰.

Blaisten is currently the leading brand in the sale of ceramics, bath and cooking appliances. Since the sixties, Blaisten has grown and opened several stores in different parts of the City of Buenos Aires and Buenos Aires Province⁵¹.

Barugel Azulay is dedicated to home equipment and construction, selling appliances, equipment, products and services. It was recently acquired by the Saint Gobain Group⁵².



Argentina

Pharmacies
An expanding segment

FarmaCity, leads the pharmacies market. It began activities in 1997 and offers pharmaceutical products, medical specialties, chemical products, cosmetics, toiletry and other consumer goods. Seeking to position itself in consumers' minds, Farmacity always looks for the best sites to locate its stores, with a format similar to the top pharmaceutical retailers of USA and EU. The company's future expansion plans include opening more stores, become the top of mind brand name for customers and the leader in the pharmaceutical market⁵³.

E-commerce
A nascent retail channel

The e-commerce business is currently starting to develop in Argentina. In recent years, only a few retailers have adopted online sales (e.g. Disco and Rosental e hijos) while other hypermarkets sell by phone. The only pure online retailer is LeShop.com.ar, with a low level of activity.

The main home equipment companies sell on the internet; for example, Garbarino, Dromo and Frávega. Department store chain Falabella offers sales over the internet with special offers and discounts.



Argentina

RETAIL AND CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

CHALLENGES

Focus on value creating activities in an environment of strong price competition and discounts

After the 2001 crisis, the hypermarket and supermarket channel lost market share as compared to other retail channels. Although a slow recovery can be seen today, current market share has not yet returned to the 1995 to 1999 levels.

There is strong competition among the large chains to benefit from the recovery and gain additional share. Players in the market tend to select strategies which favour lower prices and temporary promotional discounts on specific products as a means of competition.

This system of strong discounts, which was implemented by low prices chains as a way of differentiating from other chains, is now being used as a common and recurring strategy by most chains. The customer perceives these benefits as “commodities” since they are not sufficient to differentiate one chain from the rest. This “discount war” now appears to constitute a downward spiral for the industry, generating a continued erosion of company profitability.

To break this trend, the large chains are faced by a new challenge: to achieve a renewed “value-based” differentiation that will allow them to gain market share without affecting profit margins. In other words, chains should seek to achieve greater differentiation through quality and service following global and regional trends.

Another challenge is to achieve added-value and attract attention from the upper and middle class segments, which demand more innovative services such as telemarketing or online sales, differentiation in variety and quality of products, specialised counselling, more attractive fidelity programmes, etc.

On the other hand, given that channels other than modern retail represent a significant portion of their sales, consumer goods companies have also developed a relationship with those players, where suppliers feel stronger to negotiate sales conditions.

Gaining efficiency in the supply chain by applying new technologies and processes

When the goal is to improve profit margins, the logistics chain plays an essential role in the interest of greater efficiency and greater sales volume. Practices such as planning and collaborative supply between the retail companies and their suppliers help to locate areas of opportunities for improved efficiency. Some of the practices that companies are currently evaluating are:



Argentina

- **Vendor Management Inventory (VMI):** This consists in a mechanism where the supplier is in charge of planning and generating purchase orders through information on sales and stocks provided by the retailer. To ensure the sale of products on the basis of expected demand and stocks and to reduce errors at the point of order is work that passes from the hands of the retailer to those of the supplier, who in this way establishes a comfortable win-win situation, which also favours its customer, the retailer.
- **Radio Frequency Identification (RFID):** RFID technology is aimed at locating the products throughout the logistics chain; it will replace the bar codes and make a difference by automating processes and integrating companies. By providing more and better information on stocks, RFID makes it possible to know the characteristics of the product, where it is and its status at all times. At this stage, analysis of RFID's future implementation is focused on movements among warehouses, without installing it on stores selling space.

Retail companies and their suppliers must work together and find alternatives to cut costs throughout the logistics chain and ensure the timely availability of the merchandise at the point of sale. Collaborative work practices are beginning to be implemented very gradually in Argentina, but no doubt there is still a long way to go.

Rising inflation is identified as one of the main threats to the current health of the Argentine economy. In order to fight inflation, current government strategy focuses on price agreements.

While the government has attempted to extend these agreements across the board, it has focused its efforts on sectors such as food, gas, and other household goods, which impact the Consumer Price Index (CPI) directly. These sectors also directly affect the lowest socio-economic strata, which constitute the Argentine President's political base. While the retail sector as a whole is vulnerable to such pressure, sectors whose products affect the CPI can expect to be singled out for particular attention.

Throughout the first quarter of 2006, both the President and Finance Minister took part in negotiating and signing price agreements. Since price agreements have focused on products that affect the CPI, sometimes companies have

Achieve sustainable profitability in a price agreement scenario



Argentina

been able to offset price restrictions with increases on other goods but the price-controlled goods list is increasing month after month. Robust economic growth over the past three years with little prospect of a slowdown in the near future, as well as vigorous growth of consumption, have allowed companies to weather these pressures.

This price agreement scheme, operating in an industry environment of payroll increases, has obliged retailers to concentrate efforts on improving the marketing mix and operating effectiveness, reducing costs and developing new business alternatives in order to achieve sustainable profits and interesting ratios on a mid-term basis.

OPPORTUNITIES

Favourable environment resulting from the growth of GDP and the recovery of internal consumption

At the beginning of the century, Argentina recorded the most severe crisis of its modern history, in economic and social terms, but as from the second quarter of 2002 the economy stopped dropping and began a process of strong and constant recovery, accumulating approximately 30% in growth. Thus, together with China, Argentina heads the list of countries in which the variation in GDP has been greatest in the 2003 to 2005 period. At regional level, since 2003 Argentina has been the Latin American and Caribbean economy that has recorded the highest rates of GDP growth.

The recovery of salaries and employment has had a favourable impact on home consumption which, since the beginning of the recovery in 2003, shows an upward trend reaching, in mid-growth, values prior to the crisis.

Thanks to the recovery of the purchasing power, the supplementary categories of packaged food and non-food segments (those with greater added value, such as foodstuff, toiletry and cosmetics for example), reflect an upward trend in consumption in comparison with the basic categories (price intensive) since 2003.

The grocery market also shows a readjustment of market share of the traditional top brands displacing the second-line brands that appeared during the crisis.

The Argentine economic recovery is creating business opportunities for new investments, in manufacturing and in services, as well as those necessary to take over markets and establish brands. It must be remembered, however, that after the crisis, the profile of the Argentine consumer underwent a profound change; consumers have become highly demanding, requiring quality, valuing brands on the basis of their yield and appeal, since price is no longer a valid indicator in itself. Brand loyalty can no longer be taken for granted.



Argentina

Internationally
competitive production
and labour costs

Modern industrialisation
associated to the growth
of the primary industry

Argentina is one of the most competitive economies on the international market. Recent developments in the Argentine economy have involved a change in relative prices, with a rate of exchange more devalued in real terms and a far lower cost in terms of capital yield, generating a production breakdown different to the one prevailing several years ago and at present it is the tradable sectors that have gained greater space in the breakdown of GDP.

The cost of office/plant purchase or rental, as well as salaries and utilities are at very competitive levels in comparison with other countries in the region and the rest of the world. In the manufacturing sector, for example, the labour cost per product unit is at its lowest since 1990, which is due to the real decrease in labour cost and a greater increase in productivity.

Argentina also has a set of systems destined to encourage investments, with incentives of a sectorial nature, promotion of exports, investment activities and regional advantages.

In the primary sector, Argentina is the sixth world exporter of foodstuff and a leading player in the world agriculture and live-stock market, in a varied range of products.

Within this stage of growth in the economic cycle, there has also been a recovery in industries related to the primary activity. For instance, Argentina is the first producer and exporter of sunflower oil, third worldwide producer and exporter of soybean oil, sixth world producer of wine, second world exporter of peanut oil, second most important seller of concentrated apple juice.

Argentina has a modern and diversified industrial structure, being noted for its high level of labour productivity, emphasis on export and presence of trans-national firms. This is evident in the growth of exports by over 200% from 1993 to 2005.

Investment by foreign companies in Argentina since the crisis is in full recovery, increasing its share in tradable sectors of the economy. In the manufacturing industry, the foodstuffs industry was favoured by the recovery of the internal market, the access to new export destinations and the high rate of profitability, which encourage continued growth in foreign investment.

In this context, and considering the competitive cost advantages mentioned in previous paragraphs, an increase of exports of value-added products derived from current agribusiness activities is likely to happen and appears as an attractive business alternative.



Argentina

EMERGING TRENDS

Consumer preferences regarding retail channels

Since the crisis, changes have occurred in consumption habits, mainly in the rationale and regularity of the purchases. There has been a growing trend in the share of the self-services and small supermarkets as well as that of hard discount stores.

Hard discount stores, despite their low share at the moment, are expected to grow. Some players have already incorporated discount stores in their portfolio and will probably incorporate more in coming years. This is mainly due to the fact that they want to attract the customer who is currently purchasing in the self-service and supermarket channel, which having a system of high volume/turnover and little variety, represents a good opportunity for price negotiation with suppliers, also making the logistics scheme more efficient.

The traditional wholesale channel has also grown very quickly during the last 3 years, but is threatened by the greater logistic efficiency that could take the products directly to the retailer, overtaking its role in the supply chain. Some supermarket chains (e.g. Coto and Carrefour) have already incorporated a wholesale sector among their formats, which could also threaten wholesalers traditional “business-to-business” channel positioning.

Implementation of loyalty practices

Customer loyalty practices are increasingly being applied in Argentina. An example is the programme of customer benefits granted on the basis of points accumulation based on consumption.

Launching or repositioning of own credit cards systems originally arose from the lack or high cost of obtaining credit, and as a way of differentiation by granting flexibility in the payments. Today, it is emerging as a tool for creating loyalty as well as for credit purposes. Through the credit and loyalty cards, high value data on the customers is obtained, which could be processed and analysed to increase sales.

Retail players' concentration

Efforts of the large chains are currently directed at capturing a greater market share through economic concentration. This concentration, in which brands prevail to diversify risks, is encouraged by facts such as the stability of the rate of exchange and the socio-economic context, and is reflected in purchases of large chains and opening of discount stores. The purchase of Supermercados Norte/Tía by Carrefour, the purchase of Home Depot and Disco by the Chilean group Cencosud, the acquisition of local small players by La Anónima, Wal-Mart's interest in the purchase of local mid-size players and the current expansion of Carrefour, Casino, Coto and Jumbo in various regions and formats are several examples.



Argentina

Expansion rates in relation to non-food retailers are also expected to be higher than in the past. Nearly all shopping centre operators have announced significant growth plans for the near future.

In terms of CPG companies, concentration of players has also been confirmed as a trend during last couple of years; M&A activities mainly involved both multinational and local big players acquiring large or mid-size local companies.

Large chains go to the provinces

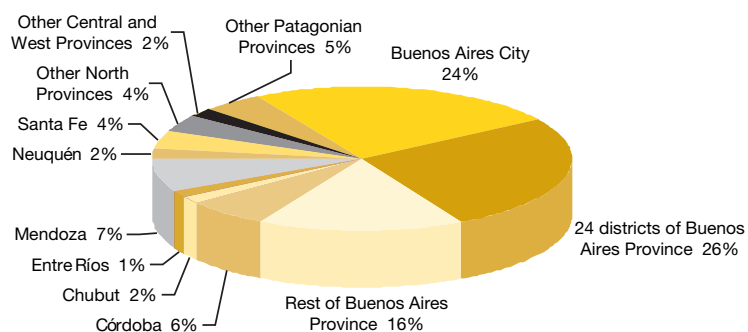
It is expected that in a year and a half, some 30 new commercial centres will open in provincial capitals and cities.

Supermarkets and shopping centres are moving to the interior of the country (i.e. all Argentine locations other than Buenos Aires and Greater Buenos Aires). The recovery of regional economies, added to the lack of growth opportunities in Buenos Aires due to maturity ratios, has caused the largest retail chains to give priority to the rest of provinces in their expansion plans.

The plans include the development of supermarket chains as well as shopping and commercial centres. The South continues to be the most attractive zone given the combination of the greater affluence of international tourism and the impact that the international price of oil has on the economy of the Patagonian provinces. However, there are also openings of shopping centres and supermarkets planned in cities such as Corrientes or San Juan, which are not benefited by any of these factors.

The following pie-chart shows that almost two-thirds of supermarket stores are located in Buenos Aires City and Buenos Aires Province. That is why the other provinces of the country arise as an opportunity for developing new markets.

% of Stores by Province 2005





Argentina

Buenos Aires City and Buenos Aires Province represent 46% of total population and account for 2/3 of supermarkets

Macroeconomic factors are favourable, to which we can add the fact that the real estate price in the interior is still a bit lower than in Buenos Aires. Thus, the interior of the country is a good market in which to invest and the idea is shared by Easy (largest DIY chain), which has just announced an aggressive expansion plan to double its network of stores in the coming four years, focusing on the interior of the country. Easy has confirmed the inauguration of the third store in Córdoba for 2006 and it is expected to open a store in Salta. The owners of Easy, the Cencosud Group, are also promoting a couple of projects of shopping centres in Yerba Buena (Tucumán) and Trelew (Chubut), and before year-end will begin construction to open two supermarkets in General Roca and Puerto Madryn (South locations).

A direct competitor of Easy, the Santa Cruz Province chain Hipertehuelche inaugurated its ninth branch in Caleta Olivia and now projects openings in Río Grande, Ushuaia and Comodoro Rivadavia. Another player that is very active in the interior of Argentina is Wal-Mart. The chain opened a hypermarket in Río Cuarto and has confirmed its arrival in Corrientes, San Juan, San Luis, Tucumán, La Rioja and the opening of a second store in Mendoza, with investments of over USD100 million.

Carrefour Group has recently announced a very aggressive growth plan requiring USD150 million investment from 2006 to 2008, for a project of opening 30 new stores around the country (15 under Carrefour brand and 15 under Norte brand), including provinces such as Entre Ríos, Tucumán, Chubut and Tierra del Fuego. Most of these new stores will have smaller selling space than the stores managed under the Carrefour brand to date, in accordance with requirements from both customers and profitability indicators.

There are other projects that should be mentioned, such as the shopping mall that a Chilean player will develop in Río Grande (Tierra del Fuego), the commercial centre that is being built by the development company Eidico in Ushuaia (with an investment of USD10 million), the mega-shopping mall of G&D in Neuquén (a venture that will cost USD23 million), the Innsbruck strip mall in Cariló, the La Normandina food patio in Mar del Plata, a supermarket of Cooperative Obrera in Villa Regina and a couple of proposals for shopping in Santa Rosa and Bariloche.

The phenomenon of the shopping centres is not exclusive to the large provincial capitals, as it was in the past, but it is slowly arriving to medium-sized cities such as Rafaela (Santa Fe) and Villa Carlos Paz (Córdoba), where there are projects in progress.

Case Study I



Shared Service Centre – optimising functional efficiency

KEY DRIVERS

In a significant trend, CPG companies with subsidiaries in different countries and locations have begun to choose Argentina as the central point in which to install Shared Service Centre with a regional Latin-American or continental coverage. The main drivers are to cut costs and generate scale economies and to focus business units on their core activities.

This case relates the experience of a large world-wide company engaged in the production and sale of non-food mass consumer products. PricewaterhouseCoopers Argentina acted as a significant part of the client implementation team.

Main objectives

Within the framework of a global program to achieve financial functional excellence and in order to implement the idea of “finance as a strategic business partner”, the Company studied the possibility of setting up a financial Shared Service Centre for Latin America in one of the countries of the region.

The purpose was not only to cut costs, but to migrate support activities, perceived as “not generating value” to a specialised team, converting it into a “core business”, and making the regional operating administration of finance more efficient. This would also help to strengthen the internal control environment and compliance with Sarbanes Oxley regulations.

The Shared Service Centre was implemented to provide a range of services including accounting and reporting, treasury, accounts payable, payroll and serving as a contact centre for all Latin American suppliers.

Why Argentina?

One of the essential issues in the definition of the business case was the selection of the location to install the Shared Service Centre. After an exhaustive analysis of possibilities, the city of Buenos Aires, Argentina, was finally chosen due to the following factors:

- The availability of highly university-qualified English-speaking resources
- Quality of life and safety
- Modern communications infrastructure
- Internationally competitive costs

- Reduced time difference with the principal centres of the USA and Western Europe
- Labour laws that establish a flexible legal framework
- Availability of relatively cheap physical infrastructure

The procedure

Once the decision and the location were confirmed, a cross-functional project team was put together, with experienced resources from other regions and a team of outside consultants, made up by PricewaterhouseCoopers personnel.

Work teams were organised, specialising in various processes, with experts in business and in technology and a project office was created to be in charge of permanently monitoring the progress. Two directors, from business and technology areas respectively were appointed as responsible for them.

At first, the main responsibilities of the work teams were: the definition of a strategy for the migration of processes from the various countries involved to the Shared Service Centre, the definition of communications mechanisms with the various stakeholders and company employees (given the critical nature of the transformation process) and definition of detailed work plans for each of the work teams.

Once the guidelines for each of the work teams had been defined and validated, work was focused on the standardisation, improvement and migration of the processes involved as well as the gathering and transfer of knowledge concerning the specifics of the countries affected by the Shared Service Centre.

The service management function was also created, in charge of permanent monitoring and improvement of the centre in terms of efficiency and of arbitrating in the relationship and fulfilment of the levels of services previously agreed with the client business units. This area is also in charge of monitoring the contact centre developed.

The implementation involved the centralisation of the finance back office for fourteen locations, from Mexico to Argentina and was carried out over one year.

Impact

From a general point of view the centre became a “business partner” for the Latin American Finance group, with a single work platform for the region, a strong internal control environment and centralisation of the regular reviews required by Sarbanes Oxley regulations. This simplified the administration of accounts and funds for the group as a whole.

- Impact on internal clients: The centre’s client areas (Finance, Sales and Supply Chain in each of the countries) were able to improve the operation-management ratio, going from a 50:50 ratio to a 20:80 ratio and once relieved of the operative work, were able to engage in the analysis and improvement of their core responsibilities.
- Impact on outside clients and suppliers: Company suppliers began to benefit from the streamlining of the process of accounts payable and from having a single contact point which handles all their consultations and doubts on the life cycle of the relationship (except for the administration of contracts).
- Impact on employees: High yield motivated work teams were created, in the service centre as well as in the business units, as they all had common objectives requiring a strong synergy to achieve them. The cultural diversity contributed to the professional and personal development of the persons involved in the transformation process.

PRICEWATERHOUSECOOPERS ASSISTED IN THIS CASE BY PROVIDING THE FOLLOWING SERVICES:

- Design and preparation of an implementation plan. PricewaterhouseCoopers also assisted in the definition of implementation roles and responsibilities for the different countries and processes.
- Review of the processes in place in various countries and identification of the best practices to design standard processes for all countries.
- Participation in defining a work shadowing plan, designed to transfer knowledge from each of the countries to the Shared Service Centre in the best way.
- Definition of a communication strategy for all the stakeholders and employees as well as the suppliers.
- Development of a recruiting and retaining plan, as well as a service and performance culture plan.
- Development of a global monitoring plan regarding the project, lasting between one and two years, where control activities, follow-up and process tracking were defined and delivery templates, timetables and work monitoring were established to supervise compliance with original plans.
- Design of the service agreements to be signed by the Shared Service Centre and the countries where the functions and roles of each were defined. PricewaterhouseCoopers also assisted in the design of operating manuals.

Case Study II



Leveraging the wine industry in Argentina for export

KEY DRIVERS

Following a flurry of investment in the 1990s, the 2002 devaluation caught the wineries well prepared technologically. Argentine wines had begun to be recognised as coming from a different terroir, with flavours and aromas that distinguish them as unique in the world. The devaluation led to an improvement in the prices at which Argentine quality could be sold abroad. Today, Argentina concentrates 5% of the global production, but only represents 1.5% of international wine sales reflecting a clear opportunity for development.

This case relates to investors from the wine industry of South Africa who arrived in Argentina at the beginning of year 2004 and located in Mendoza, the principal wine producing Province of Argentina, with the intention of taking advantage of the main characteristics of local industry. What steps did they take?

Main objectives

The core business is to buy bulk wine of a certain quality and export either bulk or bottled wine to European markets, mainly to UK. The main aims of this initiative were:

- To leverage the current excess capacity of the local industry
- To work with the highly-qualified human resources counter seasonally
- To leverage the internationally competitive costs

In the 90s, an industry turnaround process started. An important trend of foreign investment destined to the development of land and new technologies gave a great boost to wine production, improving the volume as well as the quality of the product.

Old ideas were abandoned and the definition that prevailed in international markets was adopted. The cultivation of vines was modified in an attempt to produce greater intensity of flavour and aroma instead of maximising the number of kilos per hectare, implementing stocks with lower yield. Wineries were radically transformed, equalling the most modern in the world. World-famous consultants were engaged to provide the knowledge for developing wine-growing regions.

Why Argentina?



Location of main wine producing facilities	
Province	Hectares
Mendoza (1)	70%
San Juan (2)	22%
La Rioja (3)	4%
Rio Negro y Neuquén (4)	2%
Catamarca (5)	1%
Salta (6)	1%
Total has	212.658

The wine industry has invested around USD1,500 million in its development over the last 15 years, and it is expected that USD200 million more will be invested until 2010. 67% of the investments correspond to capacity increase and modernisation of existing wineries, 28% to new investors developing new wineries and 5% to mergers and acquisitions. In addition, 7 of 10 investors are focusing on exports while the rest mainly focuses on domestic consumption.

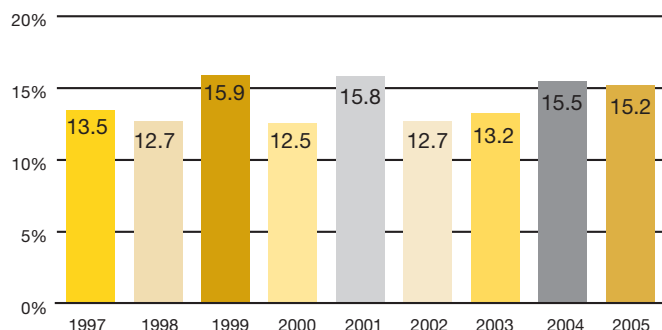
Considerable rates of return can be obtained from any profitability analysis of an investment in the wine producing industry in Argentina due primarily to a lower cost of land versus other suitable wine-growing countries (for example, the cost of a hectare in a top European zone is from USD70,000 to USD1,000,000 while the average per hectare in Argentina is USD30,000).

Main Grape Types		
Typical Top Wines	Malbec Merlot Cabernet Syrah	Chardonnay Sauvignon Blanc
New Top Wines	Bonarda Tempranillo Pinot Noir	Viognier Chenin Pinot Blanc
Low Price	Cereza Barbera	Pedro Giménez Moscatel de Alejandria Torrantes

Source: Instituto Nacional de Vitivinicultura

Due to the economic and political environment of Argentina, labour costs and raw materials have fallen in terms of dollars pushing up the competitiveness of the country. As a consequence of this crisis, the industry has developed important possibilities for the export of wines with a very good quality-price ratio (mainly Malbec grape) and which have been awarded in international markets.

Argentina wine production
Numbers in thousand of hectoliter



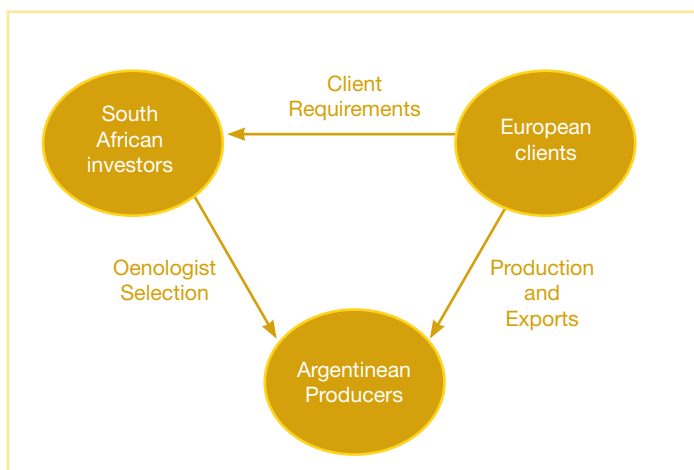
Source: Instituto Nacional de Vitivinicultura

In 2005, wine exports amounted to USD431.9 million, an increase of 33% compared with 2004. A 25% greater volume is expected for 2006 (30% in wines and 10% in grape juice), and again a new invoicing record will be achieved. Exports have been the key factor triggering the sector boom and will lead to a greater growth in the long-term.

The procedure

With the support of an English oenologist, who works counter seasonally and focuses on the quality, taste and type of wine required by international clients, the company buys bulk wine from local producers personally selected by the oenologist. It then outsources the bottling and casing process, keeping the lowest possible investment in fixed assets and ensuring the sale of the whole production, both with own and client labels (white labels for supermarket chains).

Business Model



Key success factors

- Hundred percent client focused: every year the wine bought and produced is in line with client expectations and demands.
- Oenologist with international experience who works counter seasonally and represents a lower cost for the Argentine company.
- High flexibility because of the lack of fixed assets and long-term agreements with producers.
- A very attractive business plan that leverages the competitive advantage of all the players: South African wines currently hold a significant position amidst “New World” wine players, European client demand for new wine experiences and tastes and Argentina’s surplus production capacity and lower production costs that make easy to maintain quality without jeopardising profitability.

The outcome

After a year of activity, and supporting the success of Argentine wines in international markets, the company ranked between the five most important wine exporters of Argentina with a profitability of around 17% (higher than the market average).

PRICEWATERHOUSECOOPERS ASSISTED IN THIS CASE BY PROVIDING THE FOLLOWING SERVICES:

Taking advantage of a vast body of experience in the wine industry, PricewaterhouseCoopers assisted the client in customising its foreign business model to the local environment in terms of:

- Legal support in defining the best type of association scheme with local producers.
- Defining the financial structure for the operation and the relationship with banks.
- Advisory services in customs and tax schemes to be implemented. This was an important issue considering that whole production would be sold outside Argentina.
- Human resources recruitment in both administrative and operational areas.



Argentina

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