

“With its dense store network in Europe, its complementary formats and its solid foundations in emerging regions, Carrefour has exceptional growth potential and is now ready to take advantage of these strengths.”
- Daniel Bernard, Chairman

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Created in 1960, Carrefour is the largest retailer in Europe and the second largest world-wide (second to only Wal-Mart). However, a mere nineteen percent of Carrefour's revenues originate from outside of Europe indicating that those operations are of secondary importance. The small amount of revenue from abroad shows the difficulties in overcoming liabilities of foreignness in an industry that directly relates to cultural differences.

Located in twenty-nine countries, Carrefour leads the industry in nine. The leading retailer in Latin America, with a presence in the four largest countries in South America, Carrefour's strategy focuses on strengthening its market share by expanding the type of retailing best suited to the local market and taking advantage of the complementary nature of store formats. This major French retailer conducts business in five primary forms: hypermarkets, supermarkets, minimarkets, hard discounts, and *cash-n-Carry*. In South America, however, only three of these formats are currently in operation including hypermarkets, supermarkets, as well as hard discount stores. The company operates three banners in Argentina under the names of , Carrefour (hypermarkets), Norte (supermarkets) and Dia (hard discount retail outlets). The most recent acquisition in Argentina has been the Norte chain. Hypermarkets are stores that have both department store goods and perishable edible products. Supermarkets, (e.g. Albertson's and Safeway) are stores that solely sell edible consumable goods and have no more than 2.500 square feet of floor space.

Carrefour normally enters new markets with hypermarkets in order to obtain immediate economies of scale. However, this strategy was not embraced well by the Argentine people for two primary reasons. In general, the Argentine people prefer a farmer's market setting with its intimate and singular type of good selling. It is often the opinion of the South Americans in general, that a street market vendor's goods will be better and fresher because they will take more care during cultivation and procurement. Carrefour changed their operational strategy in 1998 and has begun to grow their Argentine subsidiary through expansion in the supermarket sector in order to accommodate the preferences of the locals. Another factor that affects Carrefour's operations is the Argentine economic collapse, which shrank the economy by 28 percent, nearly destroying the consumers' buying power.

The crash occurred in part because of bad economic policies, big tax increases, and primarily due to the fact that the IMF (International Monetary Fund) requested that Argentina service their loans. The reaction of the Argentine government was the unpegging of the Argentine peso to the

American dollar, resulting in rampant inflation. The inflation cut consumer purchasing power in half, in turn affecting all retailing organizations negatively causing many to enter bankruptcy. Carrefour survived, though not unscathed, losing ten percent of their market share. Argentina is currently in the process of stabilizing their economy; however, the damage had already been done.

Carrefour has excelled in the Argentine retailing industry from the time that it entered, in 1981, until the economic collapse, in 2001. Following the economic crisis, however, Carrefour has experienced encroachment on the market of various other retailers who wish to reap the benefits of an expanding economy. Today, as the company fights to regain the market of post-crisis Argentina, Carrefour is being affected by various market events such as growing competition from Wal-Mart, the reorganization of Royal Ahold's holdings under the banner Disco and economic rebound, all of which threatens the reign of their nearly-titanic empire.

Macroeconomic Environment

Carrefour operates in and has divided its business organization into three spheres of interest, or supranational regions, including Europe, Asia and the Americas. The European retailing component is considered as Carrefour's domestic market, while the Asian and American components are regarded as secondary markets. Carrefour directs attention to each region separately and has formulated plans for managing each region separately.

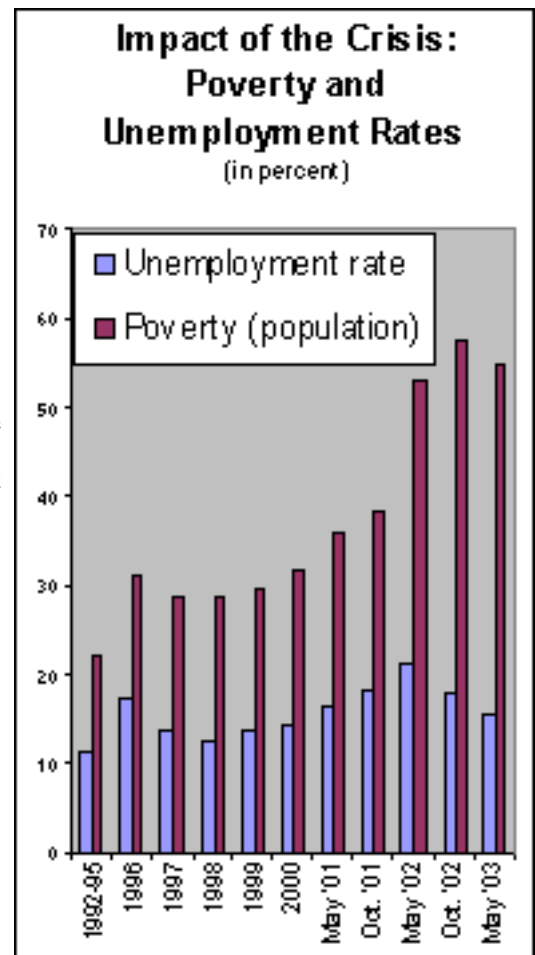
In Europe, Carrefour enjoys large market share statistics including thirty percent market share in Belgium, twenty-seven percent in both France and Spain and eleven percent in Italy. The company operates nearly 10,000 branches in eleven European countries, including Turkey. These markets bring in roughly eighty-five percent of all revenue for the company; sales in France produce fifty-percent of revenue. Carrefour currently focuses on price, intensified growth and image in their European market.

As the first international retailer to enter Asia, Carrefour is rapidly expanding into that region, operating over 300 branches. Seven percent of sales revenue is generated in the Asian region that is comprised of eight countries. A primary objective for the Carrefour group is expanding in China in

order to get a firmer grasp on the market share in that substantial market. Regional objectives include a focus on growth and quality management.

Although representing only seven percent of total group sales, Carrefour is the number one retailer in Latin America. Operating over 900 stores in the four largest nations of Latin America (Mexico, Colombia, Brazil, Argentina), Carrefour has managed to hedge encroachment in many regions of this market of other retailers such as Tesco, Metro and Wal-Mart. The company has enacted a plan in this region, which it refers to as *Clustering*. Clustering is considered, by the Carrefour Group, as the adaptation of its commercial strategies to the expectations of consumers in various demographic regions. Carrefour’s focus in this region includes adaptation, competition and coming out ahead following recession.

In order to more adequately understand the Argentine economic crisis and regional recession, it is imperative to have an understanding of the economic history of Argentina. This great nation was originally founded by Spaniards in a tremendous battle. The indigenous people of Argentina are fiercely proud of themselves because they were one of few nations to be able to stop the expansion of the Incan empire throughout all of South America. When the Spaniards came they found these formidable opponents, and laid the seeds for something that would happen many years later and change Argentina greatly. In the 1950’s this seed sprouted, Argentina saw a huge influx of Europeans fleeing their war torn nations. Mostly Spanish and Italian, but large numbers of French, Dutch, English and Germans also flocked to Argentina. This brought a much needed economic catalyst to the Argentine market and with it an swell of European culture. The Argentines fell in love with European culture and it shaped the landscape until the 1990’s when wind of



Americanism began to blow through Argentina. This change of mind ended with the economic collapse in 2001; an idealist throw back to become a more *Argentine* Argentina.

In 2001 the ripe Argentine economy was dealt a deadly blow by a combination of bad policy and the International Monetary Fund. Argentina, prior to 2001 held its peso pegged to the dollar at a one to one ratio, which helped to stabilize their currency from inflation at a huge cost. This situation may have played out differently if the American economy hadn't been overheating, causing the dollar to be artificially inflated; as it was, the United States could have afforded to keep its dollar up with its huge churning economy. Argentina, however, could not afford to keep borrowing seventy percent of its Gross Domestic Product for the sole reason of keeping the peso afloat. This market caused there to be rapid inflation of borrowing rates and before long the government was forced to float its currency. The huge instant inflation caused the value of the currency to be cut to a third when compared to the American dollar, and the dollar had devalued vastly as well. This had the massive effect of cutting everyone's buying power in half. Now only able to afford half of what they used to buy and payback half as much; many businesses were forced to claim bankruptcy. With fifty-eight percent of the nation forced below the poverty line by the end of 2002 many people were required to spend almost fifty percent or more of their income on food. Many of these people, who had previously been in the middle class (deemed the *New Poor*), had a difficult time adjusting. With so many people poor and the socio-economic gap widened many people thought they might see another French Revolution.

This economic collapse four years ago has obviously had a profound effect on the stability of Argentina. What was a country that looked to be vaulting itself into the realm of the most developed countries was now set way back. The people had been shaken and were not sure that their current government is of their best interest. Since the collapse there has been a huge amount of social protesting and doubt of the government. Currently President and head of state Kirchner has been leading the people on a path to recovery. And recently the country saw eight percent growth in 2003 with unemployment falling, the social protesting has also been declining. In an effort to revive the economy the government cut the cost of its labor through a few measures. First was to get rid of all centralized and sectoral collective bargaining agreements, then reduce the formerly large severance packages, reduce payroll taxes, allow temp work to be tax free, and extended more tax freedom to small enterprise. This helped give people jobs and keep unemployment lower than expected, but

kept wages down. In an effort to build higher wage jobs the government invested heavily in primary schools in poor areas, paid parents to keep their children in school (making it so the child doesn't need to work to support the family), and lastly expanded the university system.

Currently Argentina has a Gross Domestic Product of US\$435.5 billion based on purchasing power parity. This combined with a growth rate of almost nine percent shows that Argentina is charging back into the world economic scene. The 14.92 million person workforce consists of fifty-four percent service employees, thirty-five percent industrial and eleven percent agricultural. The country has a slowly declining unemployment rate of seventeen percent and an inflation rate of thirteen percent. These combined with the fifty-one percent of the population below the poverty line shows the low purchasing power of most people in Argentina. While purchasing power and the number of people below the poverty line are poor, these figures have taken a turn for the better.

Argentina's involvement in MERCOSUR and free association with the Andean Community has helped it use its low currency value to turn its economy around. MERCOSUR was created by Argentina, Paraguay, Uruguay and Brazil in 1991 in an attempt to setup a common market very similar to the European Union today. In 1994 the treaty of Ouro Preto commenced a plan to start the integration starting in 1995 and hoping to complete integration by 2005. The plan is more or less realized politically and also includes Chile and Bolivia (by means of free association), but it has yet to have a profound effect on world trade patterns. Although it does free up trade within the region, for Argentina this means it has been able to leverage its *new poor* who are very educated and now working for very cheap wages. This has helped them keep jobs and get the economy moving although they are reaching problems with moving goods.

During this economic collapse the maintenance on current infrastructure fell and calculations for future growth were almost non-existent. Currently the World Bank is working with Argentina to help expand infrastructure around Buenos Aires and inter-country trade routes. The government is doing its best to try to avoid having the poor bare the cost of reconstructing the country through tariffs, and thus the government has many ideas on its plate to keep the social safety net large.

A final note concerning Carrefour's macroeconomic environment pertains to liability of foreignness and Argentina's social ties to Europe. Argentina's ties to Europe are undeniable, and for a company like Carrefour this is a great thing. One advantage that Carrefour has in going into the

Argentine lies in its acquisition of Dia. Having top level managers that speak Spanish make for fewer communication problems between headquarters and Argentina; where the national language is Spanish. Culturally Argentina has taken many cues from Europe as well, partially stemming from them having such a large influx of Europeans in the 1950's helps reduce the liability of foreignness for Carrefour. These Europeans still have ties to Europe and thus connections to Carrefour. One area that gives all companies going into Argentina a large liability is the patriotism of the Argentine people. Argentines are fiercely patriotic and this can change their buying habits, this has been the case since the crisis occurred. Argentines prefer to pay a little more to ensure that the company is keeping money in the area. This is the case in Rosario and all over the more rural Argentina. Larger cities such as Buenos Aires exhibit less of this tendency, this possibly explained by a larger concentration of European immigrants. Because of its administrative heritage Carrefour has a much smaller liability of foreignness than its largest worldwide competitor Wal-Mart. Since Carrefour has been in the market for almost 25 years, most of its liability has faded from the learning process; yet events such as this crisis can still re-ignite their liability of foreignness. Thus it is important for them to establish themselves as an Argentinean company and play to the patriotism of the locals.

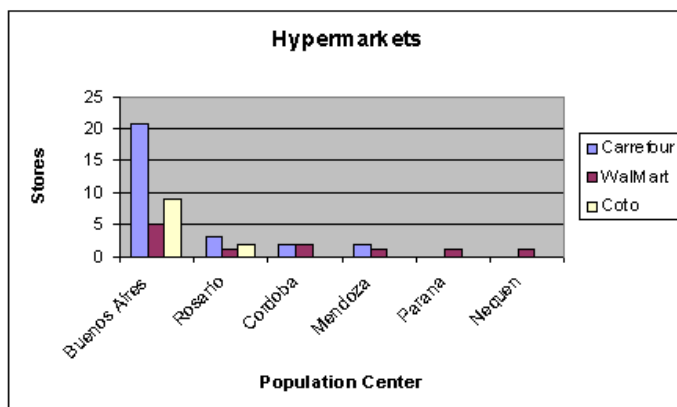
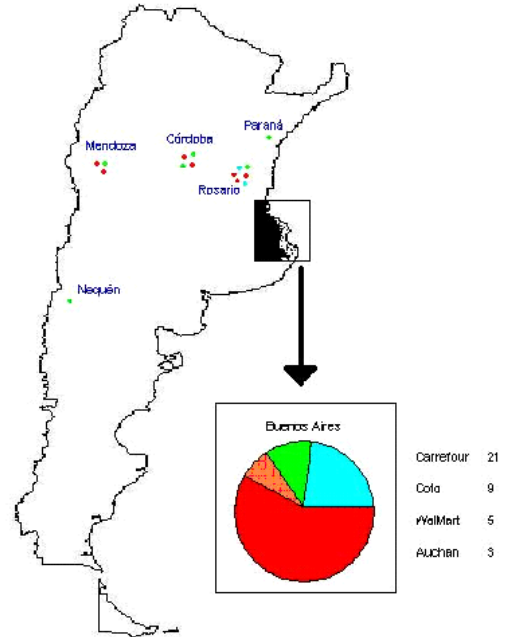
Mesoeconomic Environment

As in most areas of the world, the retailing market is fiercely competitive and often, markets can become oversaturated. Many markets in the world become saturated by foreign companies such as Carrefour and Wal-Mart coming in and setting up large hypermarkets which need thousands of customers to sustain. The losers in these battles are usually the *mom & pop* grocery stores, local chains and smaller businesses. For this reason international retailers have a tarnished name when going into developing countries, but can usually help out the local markets. They help people spend less on basic items such as food, clothes and soap; thus hedging against inflation for these products giving people more buying power. The downside is that most of the money spent there doesn't stay within the country. With the recent exit of one of Europe's largest retailers, Royal Ahold, the entire South American market has been tossed in the air. Within Argentina there is a very dynamic market with locals and multi-nationals going head to head. For most people they do not consider Wal-Mart

or Carrefour to be non-Argentinean but in the smaller areas, where these kinds of retailers have not been around, the feelings are different. Some areas feel left behind and forgotten by major chains; this has given rise to local supermarket chains. Each competitor seems to have their specialty, region or sub-market that makes them successful in Argentina. Carrefour has a large position in all markets, and dominates the hypermarket retailing sector, yet it is being beat in many areas.

Although Carrefour is the industry leader in Latin America, there is still a threat from competitors. Both national and international chains are moving into Argentina, following the economic crisis and recent expansion. There are four existing Hypermarket chains in Argentina today including Carrefour, Wal-Mart, Coto and Auchan.

Carrefour's primary competitor in the Hypermarket sector is Wal-Mart, which operates eleven branches in Argentina. Following entrance into the Argentine market in 1995, Wal-Mart realized several years of loss; however, the company has since gained market share and is now expanding in Argentina. Due to massive economies of scale achieved through enormous holdings in North America, Wal-Mart continues to be the price leader in Argentina. Wal-Mart gained access to the Argentine market through opening several branches in Buenos Aires. Once the people of Argentina had become accustomed to the brand, Wal-Mart expanded into other cities around the country. Currently Wal-Mart is the most widespread hypermarket chain, operating not only in the four largest



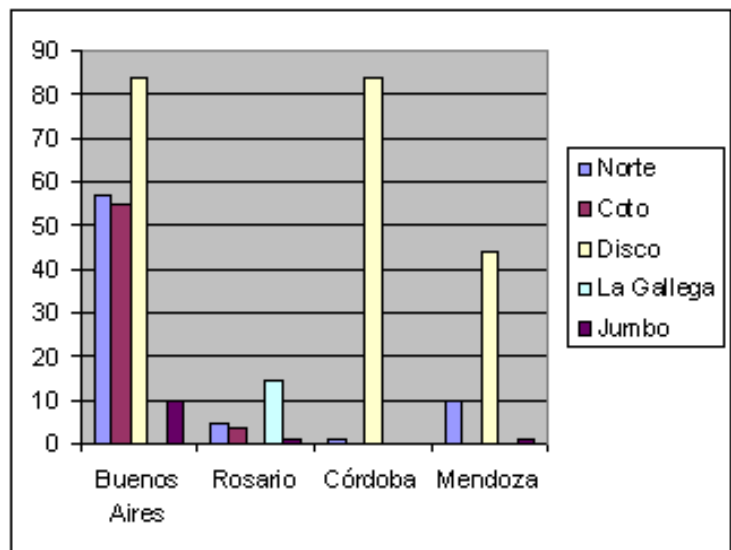
cities of Argentina (Buenos Aires, Rosario, Córdoba, Mendoza), but in Paraná and Neuquén as well.

Coto, an Argentine retailing firm, is Carrefour's second largest competitor. Although their hypermarket branches are located in far less regions of the country,

Coto's stronghold continues to be in Buenos Aires, where it operates nine branches. Coto continues to compete, since its conception in 1970, on the basis of quality products. The Coto hypermarkets target the upper classes of the Argentine population and focus on the sale of quality meats and produce, even butchering meat on site at its locations. Coto's primary marketing strategies include marking national pride, commitment to economy as well as quality of products.

The final competitor in the hypermarket sector is Auchan, a French retailer. Auchan is located solely in Buenos Aires and operates a mere three branches there. Auchan believes that its strong points in the Argentine retailing sector include attracting customers based on low prices of household goods including home appliances and furniture.

As it is not the industry leader in the supermarket sector, Carrefour faces stronger competition there. Although Carrefour is more widespread across the country, operating in twenty-one population centers, Disco holds the position as industry leader. Carrefour faces competition from five other national and regional chains including Coto, Disco, Atomo, La Gallega and Jumbo.



Disco is Argentina's largest supermarket chain, operating 225 stores nation-wide. Holland's Royal Ahold, the previous owners of Disco, recently encountered financial troubles, causing a divestment in their South American holdings. The new owner of the Disco chain is Cencosud, a Chilean retailing consortium. Disco is located primarily in the larger cities of Argentina, with a key focus on the population centers of Buenos Aires, Córdoba and Mendoza. Disco markets low prices and high quality. The requirement of a DiscoCard in order to receive sale prices is another method used in order to attract and retain customers. Thus far, Disco has been the only supermarket chain to enact this type of marketing. Disco also partakes in many social programs to improve relationships with stakeholders.

Although their branches are located primarily in the Buenos Aires, Coto continues to be a major competitor. Coto Supermarkets compete on a similar basis as their hypermarkets—on quality.

Coto focuses on attracting consumers in the upper classes of society. The company is keen on marketing its Argentine roots as well as the freshness of its products. Many of its fresh goods are transported directly from the local farms to the supermarkets, including meat products. Coto owns and operates its own slaughter houses as to manage the quality of its meat products all along the supply chain.

Regional competitors include Jumbo, La Gallega and Atomo. These competitors compete solely on a regional basis. Atomo owns and operates branches in Mendoza, Argentina's fourth largest city, where it is the regional leader. Jumbo is a subsidiary of the Chilean retailing consortium, Cencosud, which also owns Disco. Jumbo's branches are located primarily in Buenos Aires. Finally, La Gallega is a chain of supermarkets that is rapidly expanding in the Rosario region. This company is growing at a rapid pace simultaneously with the economic development with that region. The chain dominates the regional market around Rosario and has a nearly unbeatable marketing campaign. La Gallega markets their social programs, solidarity programs and locality. The company is praised for its economic contribution to the region—buying local and supporting local economy through jobs and low prices for consumers

The consumer bases in Argentina's larger cities tend to conform to contemporary buying behavior, in which consumers make less frequent trips to the supermarket and thus need to purchase more items on a

Highlight: Carrefour's Alliances

Carrefour conducts business through various franchises worldwide. There are no such franchises, however, being operated in Argentina. Carrefour participates in corporate partnering through the acquisition of minority holdings in various worldwide companies. For example, in 1998, Carrefour acquired a minority holding of Argentina's Norte banner. Through this acquisition, Carrefour was guaranteed an outlet for sales of its brands, which include Dia and Firstline. Carrefour is established through its partners and franchises in the following countries: United Arab Emirates, Qatar, Romania, Santo Domingo, Tunisia, Egypt, Norway and Oman.

Carrefour does work in cooperation with its subsidiary brands in order to stock its shelves with items produced under Carrefour's brand names. These brand names include Firstline, Bio, Tex and Dia among various others.



single trip. In the medium to small population centers of Argentina, consumers tend to conform to a more traditional buying behavior, where a daily trip to the market is not uncommon. Thus, several retailing clusters can be found in Argentina. These clusters are located in the greater areas of Buenos Aires, Rosario, Córdoba and Mendoza. These cities are also Argentina's largest. The reason for the retailing clusters lies in the buying behavior of the consumers. Argentina is realizing a shift, however, in cities where purchasing power of consumers is increasing, from the traditional manner of shopping to a more contemporary style.

As Carrefour continues its unprecedented growth, suppliers are increasingly challenged to keep pace. Carrefour provides indispensable information on Carrefour's marketing, merchandising, logistics, technology and supply chain strategies to help suppliers maximize their business with Argentine's largest retailer. Carrefour is the perfect environment to promote suppliers' products and services to Apparel, Home & Garden, Health & Beauty, Food & Beverage, Electronics & Entertainment, Sporting Goods and others.

However, suppliers have frequently expressed their discomfort with Carrefour's terms of payments, a situation that has caused continuous frictions between Carrefour and suppliers. This is a condition where Carrefour should look at closely and not underestimate their suppliers for they might create a union or boycott in front of Carrefour's entrance doors.



Carrefour has to enforce the benefits and the privileges of being a Carrefour supplier. The most important advantage to one of Carrefour's supplier is related to brand exposure nation wide. Within a highly competitive market suppliers must understand the importance of establishing a strong brand profile. Carrefour should insist on advertisements in mainstream and industry magazines, store brochures and weekly newsletter promotions and specials. Also promote in-store event marketing such as point of sale promotions and in store product samples. Finally, suppliers get a large exposure thru Carrefour's Website and email featuring promotions and specials and new products.

Another benefit includes the use of a centralized delivery that significantly reduces the amount of time the supplier's driver or delivery agent must wait to be serviced, and to reduce claims for shortages incurred in multiple deliveries to middle size merchants. Once the supplier delivers at the distribution center, it will be Carrefour's sole responsibility for the efficient move of goods to the retail markets. Lastly, centralized deliveries reduce transportation and handling costs to the suppliers.

Suppliers sell to Carrefour in large quantities which are then gradually broken down as they make their way toward the consumer. Such quantities are not even half of what a supplier might reach with other competitors or selling at the local mom and pop market shop. It is the most profitable to sacrifice price for the benefit to sell the most quantities. Suppliers will get larger profits based on large volume of sales rather on higher price per unit but lower overall sales.

However, it is important that Carrefour makes its suppliers feel that he or she is a fundamental part of the corporation. To make suppliers feel more motivated Carrefour should promote award incentives based on delivery time frame, quality product, customer service response etc.

On the other hand, small to medium size merchandisers are most probably family owned which in some cases incurs in lack of strategic operations, overstock, and primitive technology orientation. A way that Carrefour should motivate the supplier would be by providing facilitating seminars held at the company's main offices. This incentive will not cause large expenses for Carrefour but in return it will provide motivation and huge operational improvements to the supplier.

Microeconomic Environment



Carrefour operates subsidiaries in twenty-nine nations. Of these twenty-nine nations, Carrefour is the leading retail chain in nine. The group operates two supermarket subsidiaries in South America including Champion and Norte. The Champion banner can be found primarily in Brazil while the Norte banner is operated primarily as Carrefour's Argentine subsidiary. Two other banners operated in Argentina, as well as in the rest of South America, are the Dia and Carrefour banners. The Dia banner is the South American subsidiary that operates Carrefour's hard discount stores. These hard discount stores are found primarily in Brazil; however, there are less-sizable

chains in other South American countries, including Argentina. The Hypermarket chains are operated under the Carrefour banner. Carrefour manages 128 hypermarkets under the Carrefour banner in South America including twenty-eight in Argentina.

Carrefour currently operates in twenty-one cities across Argentina. The majority of Carrefour's branches are concentrated in the larger cities of Argentina including Buenos Aires, Rosario, Mendoza and Paraná. Carrefour does not have large holdings in the city of Córdoba (Argentina's third largest) due to the fact that Disco already has widespread market control of that region. The rest of Carrefour's branches are located in the medium to large cities. The reason that Carrefour has decided to operate in these cities is that the consumers in the smaller cities of Argentina and South America conform to a more traditional buying behavior characterized by frequent trips to the market through out a single week. In the larger cities, however, consumers conform to a more contemporary manner of shopping characterized by infrequent trips to a larger supermarket or hypermarket due to the fact that the consumers in these cities enjoy a heightened purchasing power.

Carrefour currently uses a system of *clustering* in its Latin American subsidiaries. The strategy of clustering, developed by the Carrefour Group, refers to the demographic analysis of intranational regions and the ensuing adaptation of the commercial model of business in that region. In order to more suitably adapt to local markets, the Carrefour Group has conducted economic and commercial analysis of regions in order to serve those consumers more appropriately. For example, regions of the Buenos Aires province are fairly affluent; therefore, Carrefour uses its system of clustering to gather a collection of more superior branches in that region. Through this system of clustering, Carrefour can even charge higher or lower prices in their clusters in order to most effectively maximize shareholder wealth.

Under the OLI framework, Carrefour has found success in having both location and ownership advantages. By establishing stores in heavily populated and industrial areas such as Rosario and Buenos Aires, Carrefour has the ability to be near suppliers as well as be available to the masses. This brings us to location advantage which is to generate greater profits than could be attained if they produced here. The government and people of Argentina favor local production and labor and salaries would most likely be much lower especially after the economic crisis where many locals would be searching for employment.

The ownership advantage comes into play when dealing with Norte, the Argentinean subsidiary that was acquired by Carrefour in 2001, taking over its management from EXXEL. As a result of having this specific asset, the company could have lower costs potentially therefore make greater economic profits, both now and in the future. Thus, they could use a production facility there that has access to the technology or which is allowed to sell products under the Norte brand name to produce a product that would still sell at a profit in spite of the foreign business costs; it helps defeat the liability of foreignness. Norte, one of the largest supermarket chains in Argentina, is thought of as an Argentine company and therefore the people recognize the brand and believe that the money they spend there will remain in Argentina. Norte is already established and have built stores in prime locations, which saves on initial costs that would originally have to be taken had Carrefour chosen to build more of their own stores from the bottom up.

Carrefour internalizes along the stream of operations mostly upstream because it is the end of the stream. Its approach to market entry shows this buy going in an acquiring a local company in Argentina they internalized all of their processes and practices as well as supplier relations, this instead of licensing their names out shows their intent. They have yet to go to the extent of buying their suppliers but they do have brands of their own and because of their large size they have an extreme amount of power. This power is almost the same as ownership and thus keeps the costs of not internalizing down leaving little reason to make the investment.

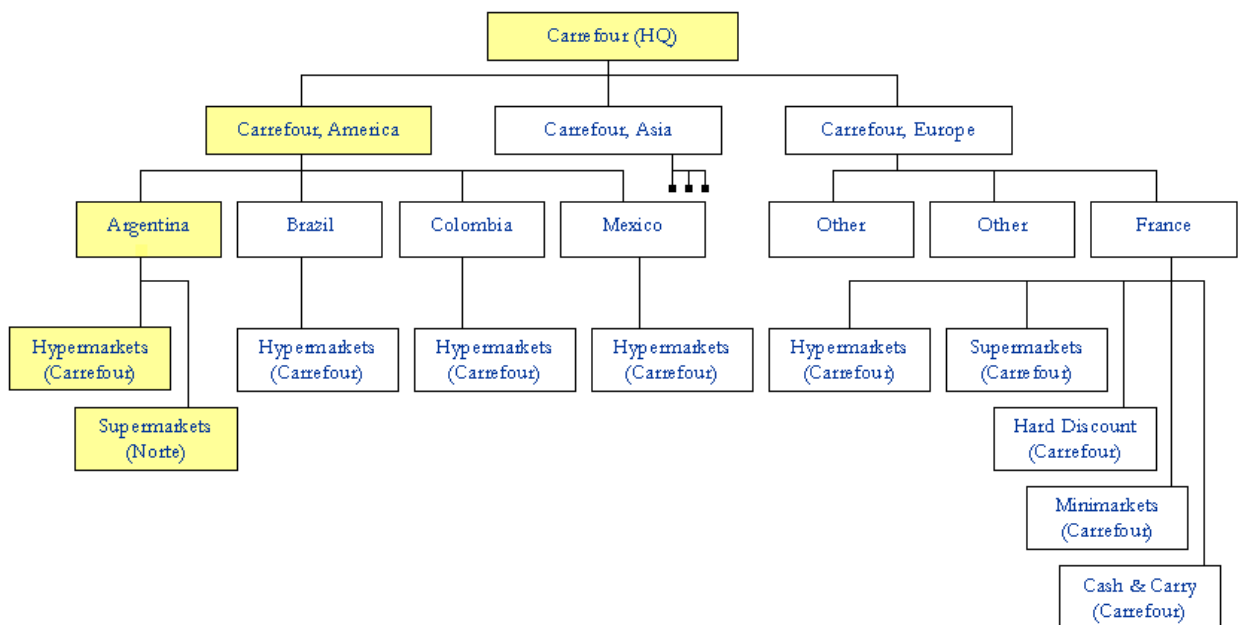
Carrefour is currently undertaking a massive marketing campaign in Argentina as well as in Latin America in order to bolster banner-recognition and to hedge against encroachment of their market share. A recently enacted program in Argentina called Club Carrefour consists of a club membership program similar to Costco's in which members pay a fee and in return are allowed access to Carrefour's lowest prices. This marketing scheme has been developed in order to attract more business customers who generally tend to purchase in large quantities. Another program that has been enacted in Argentina is the Tarjeta Carrefour (Carrefour Card). The Carrefour Card does not act as Disco's promotion card, but acts as a line of credit. With the Carrefour Card, consumers are able to purchase their items using their line of credit, granted by the Card. Consumers are then able to pay the balance of their card at the end of each month. The marketing plan attempts to create a loyal consumer base while aiding those who only get paid monthly.

Price is a marketing draw that Carrefour has advertised quite extensively in Argentina. In the regions of the country where Wal-Mart has not set up operations, many supermarkets and hypermarkets advertise that they will pay back ten times the difference if a consumer can find a lower price elsewhere. In regions where consumers do have access to Wal-Mart, Carrefour advertises that they will match any price found by the consumer that may be lower.

Carrefour’s secondary marketing includes the less-advertised marketing of social responsibility and solidarity. Carrefour donates money to local schools and other public facilities and advertises this as community services. In addition, Carrefour has created a solidarity foundation that supports education, nutrition and health, which they market appropriately.

Strategic Approaches

Carrefour has four levels of decision –making and responsibility: the Group (which is Carrefour/headquarters), the Regions (such as Asia, Europe, and South America), the Countries (France, Argentina, Germany) and the Business Units (which are the types of stores like Hyper, Super, Mini, Hard Discount, and Cash and Carry). In their strategy, Carrefour duplicates their resources across each region and country in which they operate. The Chain of command for



Carrefour's operations in Argentina is a hierarchical picture that begins at the highest rung with the top management back in France. They dictate their desires to the leading regional manager of the Americas. The manager of the American operations then decides how each national market would aid in achieving the corporate goals. After analysis, the manager relays this information to the country manager (in this case the manager of Argentina) and from there he/she allocates the goals to each business unit. These goals are then tailored by the business unit managers of the hypermarkets and supermarkets in order to best accomplish the desired performance as stipulated by the executives back in France.

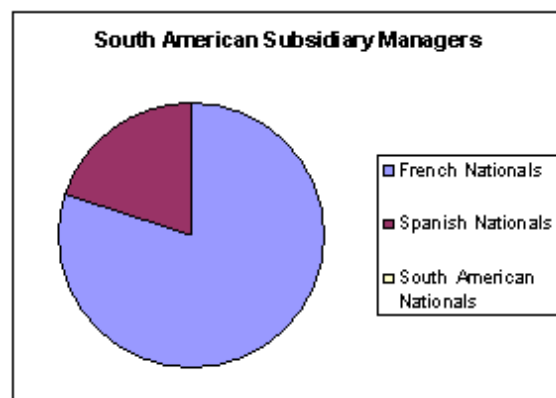
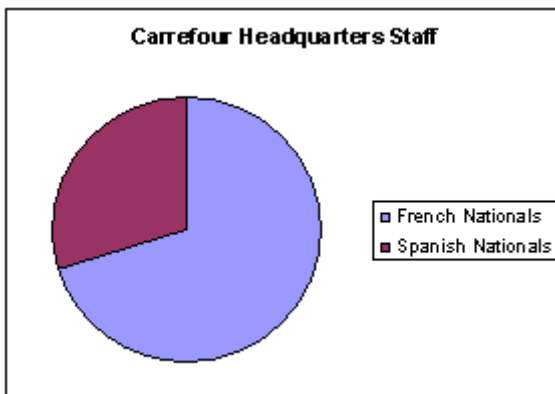
Carrefour seems to be caught in a conundrum over strategic orientation. The Carrefour Group conducts business world wide with numerous strategy characteristics. The group exhibits characteristics of multinational, global and international companies in terms of asset configuration, strategic orientation and knowledge management.

Carrefour displays multinational characteristics in its configuration of assets and capabilities. The group is extremely decentralized and nationally self-sufficient in terms of its asset arrangement. As a global retailing company, the group's assets are distributed across three spheres of influence that encompass thirty-two countries. However, the management, in terms of decision making is especially centralized in that the group conducts top-down management. Decisions for the company are always made at the headquarters in France and then passed down the line to the regional managers and then national managers.

In terms of the role of overseas operations, it is confusing as to what strategic approach Carrefour is taking. Until recently the company has conducted a global approach to managing overseas subsidiaries. As a fairly ethnocentric company, the group had gone into national markets and opened up hypermarkets and supermarkets extremely similar to the ones found in Europe. In many regions, including the South American sphere of interest, the company has failed at attracting customers to their stores due to this fact. Thus, in South America, the group is beginning to take a more international approach to their operations. In their new approach, they are using the competencies that they have developed in their European stores and applying these competencies to the South American subsidiaries while beginning a process of local adaptation.

After the realization that the company must adapt in order to appease local markets, Carrefour has begun to follow a multinational approach to knowledge management. The group is taking this approach due to the fact that the regions in which they operate are extremely different culturally. Knowledge that is developed in Argentina, for example will generally stay in Argentina, as that knowledge is generally pertinent only to Argentina in particular. However, through forums such as Carrefour’s annual World Managers’ Convention, pertinent knowledge can be transferred from region to region. The company will also transfer managers from one market to another if there is an aspect of business operations that would benefit from such a transfer, however, this is extremely rare.

Although not an explicitly expressed code, Carrefour seems to display traits of companies with both ethnocentric and polycentric staffing policies. Seventy percent of corporate managers have French nationality, the remainder are Spanish nationals. The reason behind this combination of management actually lies in the history of the company. The purchase of the Spanish banner, Dia, nearly doubled the size of the organization, at the time of purchase. Much of the managers received in the acquisition were thus transferred to corporate headquarters. As the company is, in practical terms, half Spanish and half French, there lie grounds for retaining Spanish nationals at headquarters. The ethnocentricity of the staffing policy can be found in the management of the supranational business units. The South American managers follow a similar breakdown in numbers; of the executive management of South American operations, four-fifths are French and one-fifth are Spanish. Currently no South American nationals work in the executive team that manages that region. The national subsidiaries, however, follow a more polycentric staffing policy, as most national units are managed by a national of that host country



In the past, Carrefour and its subsidiaries have relied on the French headquarter offices in determination of strategies for competitiveness. However, the company is moving toward development of more transnational approaches to knowledge management and knowledge sharing. This transnational approach includes joint knowledge development for worldwide sharing.

The company has recently professed that it will now begin to create competitiveness through the development of synergies between national units. Just recently, for example, Carrefour's Italian subsidiary helped introduce new pizza sections in the hypermarkets of the Group's branches in Greece and Japan. One method of arriving at this international synergy development includes holding the World Manager's Convention every year. At this convention, the management of all subsidiaries are called to a common location to discuss the operations in their national unit. The goal of this convention is that the managers will share knowledge and will take with them ideas of how to improve their own operations, implementing new plans accordingly. One of the larger developments to come out of this convention incorporates actions of the Italian subsidiary. Carrefour Italy, which has developed the largest logistics platform on the European continent, has shared their knowledge of logistics with other managers at the convention in hopes that the other managers will be able to form platforms in their countries. Another method of developing international synergies is through the company's *Service d'Etudes du Groupe*, Carrefour's in-house research group. The purpose of this group is to analyze the strategies and business models of the subsidiaries in order to develop explicit knowledge from the tacit knowledge acquired at the subsidiary locations. One of this groups most notable accomplishments was the analysis of Carrefour Spain's inbound logistics, which were known to be among the best in the world. The *Service d'Etudes du Groupe*, researched the reasons as to why this subsidiary's logistics were superior, creating a report that helped many other subsidiaries develop more adequate inbound logistics systems.

VALUE CHAIN

Inbound

Carrefour's distribution center has the latest in inventory control and materials handling equipment. Most buying is done centrally from the company's headquarters in France and for local products and fresh produce it is done at the Buenos Aires offices. Merchandise is delivered to the distribution centers and then trucked directly to the retail stores daily. As customers make purchases, sales amounts and the change in inventory are automatically sent to the computer by the electronic scanner checkout system. This information is then sent daily via On-Line Carrefour service to headquarters and to the appropriate distribution center. This daily updating of inventory allows distribution centers to send the precise amount of merchandise to the stores to maintain the optimum level of stock.

Similarly, the inventory information allows buyers to order ahead and keep the proper amounts of goods flowing into the distribution centers. The remaining merchandise is delivered directly from the factory or through vendors and distributors.

The core objective should be a profitable increase within the business processes systems, retraining and educating staff, completing test runs, and, in time, understanding the long-term maintenance and upgrading a full execution requires.

Operations

One way in which Carrefour can help to differentiate itself and thus add value for its customers is through its operations. The operations aspect of Carrefour's value chain is the actual running of the customer to business interface. Here there are many things that can go wrong; creating poor customer relations that will eventually add cost to the after sales service portion of the value chain, a.k.a. returns. In the super and hypermarket industry it is vital to ensure that all food has not passed its expiration date, you have the right kinds of food and product mix on the shelves, everything is clean, and the layout of the store is easily understandable by the customers.

It would be especially easy for a customer to get lost or be unable to find the item they are looking for inside a giant warehouse hypermarket if they did not know the procedure for finding it. This is often the case when going into an under-developed market such as Argentina. In a place

where people are switching from shopping at many small vendors in a market system to a supermarket system there can be misunderstanding about the shopping process, thus creating backlash. It would be very beneficial for Carrefour to have large maps showing customers where everything is, also adapting their stores to look more like a market will help their customers adapt.

Making an easy and enjoyable shopping experience adds value to customers and helps them concentrate on the low prices offered by Carrefour instead of their new shopping environment. This can be a costly procedure though and there is no guarantee that shoppers will stay loyal to the Carrefour brand name once they have adapted to a new way of shopping. This is why having good marketing and sales are key to Carrefour's success in Argentina.

Outbound

Carrefour operates a system of outbound logistics similar to other retailing chains. In this industry, the outbound logistics aspect of the value chain involves all operations in getting the goods that people want paid for and out the door. As in other retailing stores, Carrefour offers shopping carts and baskets for people to collect their items. In order to most efficiently process customers at checkout stands, Carrefour utilizes its *Service d'Etudes du Groupe*. This group, among other tasks, analyzes the queuing system at each store, in order to more efficiently design the checkout area. This part of Carrefour's value chain adds little value to the overall system; however, if the queuing systems at each branch weren't adequate enough to let people pass a rapid pace, shoppers would be more apt to purchase items elsewhere.

Marketing & Sales

Carrefour advertises its products thru local newspapers and advertisers. Sales flyers feature seasonal items and other popular items at very attractive prices. The strategy is to get customers into the store on the basis of attractive prices on key merchandise that show strong price elasticity. It is then believed that most customers will assume that all other merchandise at Carrefour has a low price, and will make purchases without comparison shopping. Carrefour should leverage its knowledge and skill in its advertising and push the "El precio que vos querés" slogan which translates as "The price that you want".

People of all social classes know Carrefour as the lowest price retailer. With a decentralized management style, it encourages initiative and creativity among store managers and employees.

Carrefour also encourages full satisfaction or promises a full refund, no questions asked as long as the article that was purchased is still in perfect order and in its original packaging. A receipt must also accompany the return and be within 30 days of the original purchase date. If the reason for returning the item has to do with a question of quality, original packaging is not necessarily needed. This policy is applicable to all products with the exception of electronics (due to the influx of piracy). This is an attempt to ensure the consumer's trust.

They also firmly believe that their approach is the source of our financial success. Carrefour's sustainable development policy has always been firmly rooted in action: we are committed to proving our dedication to social, economic and environmental concerns by placing them at the heart of our day-to-day practices.

Another policy is the *l'engagement*, which is price matching. Carrefour states that if an identical product is found to be cheaper elsewhere, Carrefour will reimburse the difference within a 30 days window.

Service

The final aspect of Carrefour's value chain involves after-sale service. The Argentine subsidiary conducts little after-sale service; however, the services that they do offer can provide future benefits. Many of the branches in Argentina offer customer service surveys to shoppers. Shoppers are able to fill out these simple questionnaires that contain questions involving service levels and quality. Based on the way in which consumers respond, each branch store may alter some sort of their operations in order to more adequately serve that region. These questionnaires also give the customers the feeling that they are cared for, thus creating customer loyalty.

Another service provided by the company is the Carrefour Card. This card acts as a line of credit in certain regards. Customers can use this card at Carrefour stores only, pay by the end of the month—accruing no interest to customers. This is a great service to many customers who wish to purchase more expensive items that are not able to due to their current financial service. The act of not charging interest after sale is an excellent plan that not only helps out customers after the sale, but an interest free card attracts customers to that program, building customer loyalty.

SUGGESTED CHANGES

Differentiation Strategy

Smaller independent merchants cannot offer comparable policy returns because of their lack of leverage with major suppliers. However, Carrefour's excellent rapport with their suppliers due to mass quantity purchasing allows consumers more easily returns items.

It is difficult to find workers at the hypermarkets who know the merchandise. There are many examples of smaller merchants who build a loyal clientele because they are able to help customers analyze their problems and help them find the right tools, supplies and equipment. The solution is to give people more training in the store layout and possibly some technical education depending on their job. Another alternative would be to have one person that knows, or someone on a computer hooked into a knowledge database, that all employees can radio at anytime to ask a question.

It is not possible for Carrefour to carry every conceivable item in inventory. Consumers might walk away and purchase the needed item with the competitor or at the smaller merchandiser. In order to help these people Carrefour should devise a system for special ordering a product, and if they get enough demand for it they would begin to stock the item

Due to the fact that Carrefour has competitive wages and benefits within the retail industry, employees feel they are part of the company. Regular store meetings should be held where everyone can participate in planning and problem solving. Also, it is important to train employees often, and instill in them reassurance that they have the opportunity to be promoted. The way Carrefour should improve this is by assisting in education to those that exhibit desire to move up within the company, and who want to continue their education.

meters	feet	3.2808
1 meter = 3.2808 feet		

Store Design and Layout

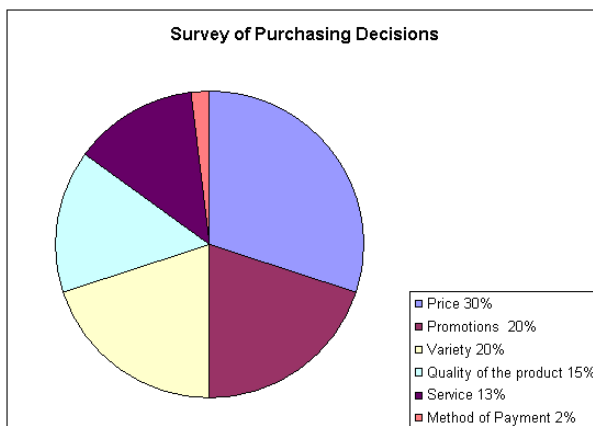
Rosario and Mendoza have downsized floor plans from 49,212 to 32,808 and 26,246 square meters, respectively; this has proven highly successful to Carrefour. Since downsizing represents cut expenses, Carrefour should continue with the trend. This is necessary because consumers have complained that the stores are too large and they feel lost. This is understandable because it is such a

large change from a street market. Another part of the store that Carrefour should alter is the floor plan layout. If consumers prefer the simplicity and personalized service provided by the traditional market then Carrefour should innovate and adapt to the consumer preferences. Carrefour uses distinctive logos at the company’s web site to particularly describe its first necessity products. These logos should be used at the market floor to enforce the consumer’s attachment and quick identification of the service offered.

The biggest change here is to change from a pod style of produce selection to a more traditional street market layout. This idea can save space, gives more a more local flavor, and helps ease people’s transition to a hypermarket style of shopping. idea is to heighten the service and provide clusters with in the market like several traditional markets.



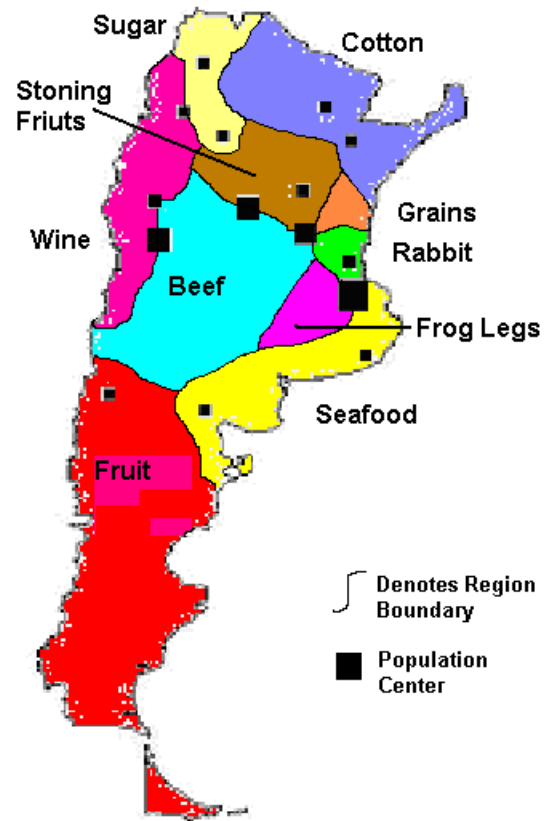
Pricing Strategy



PERCENTAGE	CHOICE
30%	Price
20%	Promotions
20%	Variety
15%	Quality of the product
13%	Service
2%	Method of Payment

Carrefour’s pricing strategy should Survey based on purchasing decisions be oriented to lower prices on items that people frequently purchase or are their first priority. After all, consumers find price as the most important fact at the time of purchasing decision.

In order to approach the excellent price, and being competitive, Carrefour should target local suppliers who are located near key locations such as Buenos Aires, Rosario and Mendoza. Note that a large concentration of beef production is bordering Carrefour’s most important markets. Since Argentina is known for excellent beef and the locals demand high quality, Carrefour should work closer with local beef suppliers to procure the best quality beef and to draw customers in with an excellent price. Carrefour could also get supplies from the areas surrounding Argentina because of the alliances setup known as MERCOSUR. This will help them source from the best area suppliers that can attain quantities critical to Carrefour’s economies of scale.



Agricultural Regions of Argentina

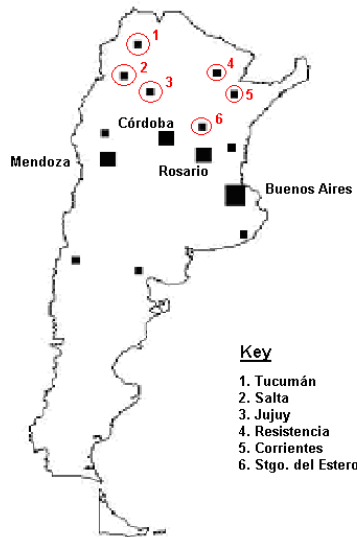
Social Responsibility

Carrefour responds to the agenda for corporate citizenship –the growing need to manage issues that affect their business reputation—and to respond to the growing needs and concerns of a wide range of different stakeholders. Carrefour has demonstrated that responsibility means striving to do what is right, being a good neighbor in the community, and integrating social and environmental priorities into its markets and its relationships with suppliers and business partners. Carrefour is actively involved with the youth by supporting sports and other scholarship programs like “Junior Achievement,” and “Ganas de crecer.” Also, Carrefour has shown commitment to the environment by implementing program relates to Argentinean resources, and the community.

Carrefour should continue offering scholarships, and also demonstrate interest for the environment. They should also create a marketing campaign showing that they care about Argentina and show how they have supported the country during the economic crisis

Existing Markets, 10 largest Cities in Argentina			
Population Center	Supermks.	Pop'n.	PPSM
Buenos Aires	206	11000000	53398
Rosario	25	1400000	56000
Cordoba	85	1200000	14118
Mendoza	121	1000000	8264
Tucuman	8	500000	62500
Salta	8	500000	62500
San Juan	1	400000	400000
Resistencia	1	400000	400000
Stgo. Del Estero	2	350000	175000
Corrientes	2	300000	150000
Total	459	17050000	
Average PPSM, largest			37146

Our Most Promising Markets				
Population Center	Supermks.	Pop'n.	Max	# to Build
Tucuman	8	500000	13	5
Salta	8	500000	13	5
Resistencia	1	400000	11	9
Stgo. Del Estero	2	350000	9	7
Corrientes	2	300000	8	6
Jujuy	3	200000	5	2



Location Strategy

It seems as if the most encouraging locations for future growth of the Carrefour Group in Argentina lie in the north of the country. These cities include Corrientes, Resistencia, Salta, Jujuy, Tucumán and Santiago del Estero. These cities have fairly respectable growth outlooks for the company for various reasons, including regional economy growth, underdeveloped retailing sector and the already-established presence of Norte in the region.

Following the crisis, the northern region of Argentina has been rebounding faster

than other regions in the country. For this reason, consumers in the northern cities are experiencing heightened purchasing power. In the past, it is generally a trend that when consumers have a heightened purchasing power, their buying behavior changes from a traditional style to a more contemporary manner of shopping. As consumers in the northern cities begin to change their buying behavior and reduce their trips to the market, they will need a supermarket and hypermarket infrastructure set up in their cities in order

to accommodate their needs of a one stop shop. Carrefour is in the perfect position to elevate the number of stores they have in that region to accommodate to the newly emerging market of consumers with heightened buying power.

The retailing sector in the northern cities is relatively underdeveloped due to the fact that there are not an appropriate number of supermarkets located in these cities. In general, Argentine cities have roughly 37,000 people per national supermarket chain. This calculation is based on the

number of national chains located in Argentina's ten largest population centers. In the northern cities there are roughly 94,000 per branch of national supermarket chain. This leaves room for construction of thirty-four new branches, based on the average number of national chain branches in the ten largest cities in Argentina.

Carrefour's Argentine supermarket subsidiary, Norte, already has a presence in each of these northern cities except Santiago del Estero. Thus expansion into these regions would be smooth, as there is already an established familiarity with the Norte banner.

Marketing Strategies

In order to enter the markets in the northern cities, Carrefour must endorse a mass advertising campaign. Not only should the company market their low prices, as they currently do in Argentina, but they should enact other marketing plans including the advertisement of freshness of products, social responsibility and the growing of local economy.

An action that may be extremely beneficial would be to begin an

Highlight Case Study—Rosario

The Santa Fe province and greater Rosario, Argentina's second most populous region once held extensive industry. However, during the 1990s, the region saw a steady economic decline and in 2001, the regional economy hit rock bottom during the economic crisis. Due to the total economic collapse of the region, Rosario became Argentina's poorest large city in a very short period of time. Today there is much poverty in the city, many residents lack running water and flushing toilets. However, the Santa Fe regional economy is now the fastest growing in Argentina.

There is a very bright economic outlook for the region, which, like the northern cities, has an underdeveloped supermarket sector. The region's largest chain, Supermercados Tigre went bankrupt in 2001 and was completely dissolved, leaving the region without appropriate retailing facilities. During the decline and following the economic collapse, the consumers of the Santa Fe province have reverted to a traditional buying behavior. Most residents frequent a market on a daily basis and buy only what they need for the day. However, with the economy growing at such a rapid pace, the people of the Santa Fe province are realizing elevated purchasing power. As in the past, this elevated purchasing power should cause a movement toward the contemporary manner of shopping.

advertisement campaign that mirrors the promotions of La Gallega. This advertisement campaign would promote the growing of local economy through jobs and low prices. As Carrefour would be hiring local for its new stores, this would provide more jobs and thus help the regional economies grow. In addition to this, Carrefour generally provides local products for their stores, thus the addition of new stores would support local agricultural workers and should be advertised accordingly. In Colombia, locally-produced goods are denoted at location of their local origin. This ensures buyers that their purchases are aiding the local economy. A marketing plan such as this one would be of great benefit to the company if it were to move into the northern regions.

Carrefour never closed its doors during or after the economic crisis. Other chains, such as Rosario-based Hipermercados Tigre, went into bankruptcy during the economic crisis. Carrefour should market its commitment to the Argentine consumers. If the Argentine consumers were to know that they can rely on Carrefour during a crisis, the consumers may begin to rely on Carrefour on a daily basis.

Highlight, Continued

There are several drawbacks to entering the regional market of the Santa Fe province. The leading competitor is La Gallega, a company that is perceived by the population of that region as being of great importance to the economic development of the region. Consumers in Rosario are proud of this chain and are therefore extremely loyal to that banner. Rosario is also an extremely patriotic city. It is known locally as the cradle of Argentina, as it is that nation's birthplace. As a result, consumers are more than happy to support any company of local or Argentine origin.

Carrefour should enter this regional market with caution. In order to realize success, it would be necessary to first enter with the Norte banner, which is identified as a local company, and then to introduce mass social responsibility marketing. Carrefour participates in many social responsibility and solidarity programs and supports local agricultural workers. Thus, the company should market this to let the consumers of the Santa Fe province know that Carrefour is socially responsible and supports the growing of local economy. As Carrefour is the retailing leader in Argentina, the company would also be able to market low prices. Once Norte has been established in the region as not only the price leader, but as a socially-oriented company, Carrefour would be able to begin a campaign of cross-banner awareness in order to prepare the region for the introduction of the hypermarket store format, operated under the banner Carrefour.

Carrefour's Argentine subsidiaries take part in many social responsibility and solidarity programs nation wide. The company should advertise these programs so that the consumer realizes the impact that Carrefour is making on the community. Consumers may be more apt to support a company that they know will support their community.

Concluding Thoughts

As the Argentine economic crisis began to unfold, Carrefour saw the profitability of their South American holdings begin to falter. As consumer buying behavior began to revert to a more traditional style of buying, Carrefour saw its customer numbers begin to fall. And, as Wal-Mart moved in to Argentina, Carrefour began to see their price leader position begin to slip away. However, this dynamic company has been able to hedge against all of these market aggravations by means of many transitions in the business models of the South American subsidiaries.

Through knowledge sharing, the subsidiary has been able to contact other managers from other regions in order to better understand business operations and take advice as to how to go about arriving at better models of business. The concept of *clustering*, has improved profitability in the Argentine market, as supermarkets are grouped together by economic region in order to determine better pricing strategies.

The reduction in hypermarket floor size has given Carrefour the ability to attract customers who are accustomed to shopping in smaller markets. Customer questionnaires have also shed light on how to go about improving the style of the hypermarkets and supermarkets to better attract and retain customers. An array of marketing strategies, from the marketing of solidarity programs to the marketing of fresh goods, the company is constantly attracting new customers.

If the chain were to move into the northern cities, where the economy is improving and consumer buying power is increasing, the Group may gain benefits from opening stores in this largely undersaturated market. Better relationships with suppliers would bring more competitive prices and fresher goods to the hypermarkets and supermarkets, thus attracting more customers and inherently bringing in more money for the Carrefour Group.

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In order to get a better grasp on the topics discussed in this paper, attached is a list of terms with definitions to describe concepts in this paper. Analysis of concepts in this paper frequently make reference to the following terms.

Terms

Andean Community—regional trade bloc including Bolivia, Colombia, Ecuador, Peru and Venezuela; Bolivia operates in free association with MERCOSUR (Source: www.wikipedia.org)

Banner—subsidiary company operating in a consortium enterprise, responsible for retail sale of brand goods

Brand—subsidiary company operating in a consortium enterprise for the purpose of the production of goods, rather than the retail sale of the goods

Cash-n-Carry—outlets are designed to meet the needs of restaurant and food industry professionals. (Source: www.carrefour.com)

Contemporary Buying Behavior—a behavior in which consumers make less frequent trips to a store; purchase amounts are higher during each trip

Hard Discount Store—offers 800-1600 products at unbeatable prices; smaller stores

Hypermarket— offers a wide range of food and non-food products at very attractive prices; their shelves stock an average of 70,000 items. Floor areas of hypermarkets range from 5,000 sq.m to over 20,000 sq.m, and their catchment areas are very large. (Source: www.carrefour.com)

Latin America—region comprised of all American nations with people of Iberian descent; includes nations in North, Central and South America and the Caribbean

MERCOSUR—regional trade bloc including Brazil, Argentina, Paraguay and Uruguay; promotes free trade and movement of people, goods, skills and money (Source: www.wikipedia.org)

Minimarket—extremely small stores selling a limited amount of goods, often times offering services for automobiles; often called corner store

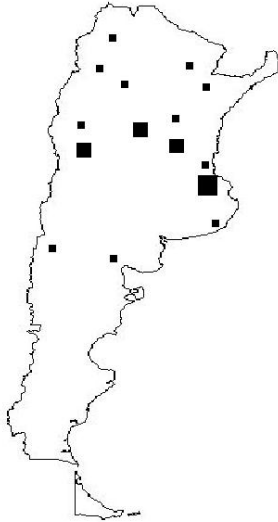
Mom-n-Pop—independently owned and operated minimarkets

Population Center—highly populated area not restricted to the boundaries of a metropolitan area, often including surrounding/more highly populated areas (see map of Argentine population centers on next page)

South America—every nation south of the Panama Canal on continental South America, excluding the Caribbean

Supermarket—offers a wide selection of mostly food products, at very competitive prices, in outlets featuring floor areas of 1,000 to 2,000 sq.m. (www.carrefour.com)

Traditional Buying Behavior—a behavior in which frequent trips to a market or smaller supermarket are made within a week



This map shows the Argentine population centers, as defined in this paper. The largest square is Buenos Aires, in order from left to right are Argentina's fourth, third and second largest cities: Mendoza, Córdoba, Rosario.