



## 2016 Top Markets Report **Franchising** Country Case Study

### Argentina

The local franchising industry has developed into a challenging and highly competitive environment for international franchisors seeking local partners.

Overall  
Rank

11

Argentina is the second largest country in South America, with approximately 43 million people. The economy benefits from an abundance of natural resources and a highly literate and well-educated population. Once again, high inflation poses major troubles for its economy.

The U.S. exported \$10.8 billion in goods to Argentina in 2014 and purchased \$4.4 billion. In services, the U.S. exported \$7.1 billion, and Argentina sold \$1.9 billion.

Franchising is an extremely competitive sector which accounts for approximately 2 percent of Argentina's GDP. Local franchises dominate the market with almost 90 percent of the market. With about 400 brands in Argentina, a small number of franchises control a large portion of the market.

Franchising is a successful model in Argentina, with fast food, foreign language training, dry cleaning, hotels and car rental business continuing to be popular franchise concepts. Coffee shops are currently a growth sector. Since 2008, Starbucks has opened over 30 stores. The U.S. franchise sector is well represented by McDonald's, Burger King, Re/Max, KFC and others.

Although initiatives to advance a franchising law are being discussed, currently franchise contracts are generally protected under the Argentine Commercial Code and are not governed by specific legislation. The scope of the service, commercial trade market/name, expertise and shared production elements are covered by contractual obligations on both franchisor and franchisee. Elements of the contract include the license, methods/systems or proprietary information transferred to a franchisee, inputs supply, sales methods, quality standards and ultimate control by franchisor of the contract elements.

Without formal laws regarding franchising, legal counsel is recommended when entering into a franchise agreement in Argentina.

#### **World Economic Forum's Global Competitiveness Index (GCI):<sup>1</sup>**

Argentina drops again in this year's rankings due to poor rankings in numerous categories. These rankings only reflect the already known problems that Argentina faces impacting its competitiveness in the global marketplace.

Argentina	
Competitiveness Index	Score (1-7)
Government/Regulatory	2.7
Labor Force	2.8
Infrastructure	3.4
Demand/Business Factors	3.6
Industry Interest*	5.9
<b>3.68 Total</b>	
World Economic Forum International Franchise Association*	
Economic Statistics	
Population	42.98 million
GDP	\$537.7 billion
GNI, per capita (PPP)	No data
Income Level	High
Unemployment	8.2%
Inflation	No data
World Bank (2014)	

### Government/Regulatory

The country is currently facing a deep institutional crisis, scoring poorly on property rights, ethics and corruption, and government efficiency. These issues must be addressed or Argentina's economy will continue falter behind the rest of the developed world.

### Labor Force

Overall rankings on Labor Force Efficiency are extremely low for a country of Argentina's economic status. The hiring and firing practices rating continues to drop, while the capacity to attract and retain employees and the flexibility of wages remain low as well. Argentina does have a well-educated work force.

### Infrastructure

Another factor leading to the anemic Argentinean economy is the quality of its infrastructure, which rates among the worst in the region. Argentina rates poorly in all infrastructure categories: road, rail, port and quality of its electrical supply.

### Demand/Business Factors

A weak macroeconomic environment and inefficient financial sector hold back investment, with business leaders considering inflation and foreign currency regulations to be the two most problematic factors for doing business in Argentina.

### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, Argentina was ranked 10<sup>th</sup>.

### **Resources**

U.S. Commercial Service  
<http://www.export.gov/argentina/>

Argentina Country Commercial Guide (CCG)  
<http://export.gov/argentina/doingbusinessinargentina/argentinacountrycommercialguide/index.asp>

Argentina - Franchising  
<http://apps.export.gov/article?id=Argentina-franchising>

### **Industry Expert's Take:**

**Recent change in government could greatly increase the potential for this major, western style market with high middle class consumer opportunity.**

**William Edwards, Edwards Global Services, Inc., December 16, 2015**

<sup>1</sup> World Economic Forum, The Global Competitiveness Report 2015-2016