

Final Research Project and Oral Presentation: Foreign Market Assessment

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Executive Summary:

The major issues we have identified in our research for GNC to enter the Argentinian market do not offset the benefits. The major issues identified in Argentina are high inflation rates, high taxes, potential import barriers, systematic corruption, inefficient customs and legal processes, and costly labor. While these issues make entering the market in Argentina difficult and less appealing, our strategy to enter the market bypasses most of these issues. We recommend GNC to approach Argentina's market with an export only strategy and wait to establish a wholly owned subsidiary. This allows the GNC to sell their product to convenience stores, supermarkets, and other stores that sell health supplements. Distributing to retail stores allows GNC to bypass the risk of systematic corruption, legal processes and costly labor. Although they might have to pay import tax to export products to Argentina, getting their foot in the door in the fast growing market of Argentina will be profitable.

Political and Legal Risks in the Target Market

Risk Evaluation

The major challenge that GNC may face as a foreign market entering Argentina are the high inflation rates, which will cause higher taxes and potential import barriers. Other challenges and risks, as mentioned by the International Trade Administration, include "persistent and systemic corruption, inefficient customs and legal processes, and costly labor".

Economic Evaluation

Argentina's economy is recovering rapidly from covid with a GDP of \$491,492 million dollars in 2021. Argentina is classified as a mixed economy and the economic freedom score is 50.1. This low economic freedom score is a con for Argentina as GNC will need to be careful

competing with government owned businesses. Another risk companies will have investing in Argentina's economy is their increase in inflation rates. For example, one American dollar exchanges for 145.16 Argentine Peso. The economy has potential to grow because it has rich lithium and oil reserves and an increasing number of renewable energy sources. GNC in Argentina would flourish because of the stability of the country's economy which would allow for multiple locations with a wide variety of customers. In Argentina, businesses make up the largest part of the country's GDP at 33.3% meaning that lots of businesses are flourishing in the region. The country's GDP is only growing with a 10.3% growth rate in 2021 compared to the year prior. Argentina is the second fastest growing economy in South America so getting GNC into a business sector where the economy is growing exponentially is important. There is no reason to see Argentina's economy slowing down because the government is involving themselves in the World Trade Organization, G20 summit, and trade amongst other developing countries with growing markets. Becoming involved with wealthy and up and coming nations will continue the dramatic growth of GDP. Additionally, the sales values from health and wellness products in Argentina grew from 3 billion US dollars to over 8 billion in 2020, making Argentina a good market for GNC. The pandemic has been a supportive driver of health and wellness products around the world since 2020, with Argentina playing a big role in the global market for these products.

Social Evaluation

Both the United States and Argentina have this wealthy class that controls national economic activity, thus having the economic potential to indulge in gym enhancement products.

One issue that presented itself was a collection of studies conducted by the *Fundación InterAmericana del Corazón* in 2019. These studies concluded that two-thirds of the adult

population in Argentina were overweight. Around 33.1% fell into the overweight category, and 32.4% fitted into the overweight/obese category. Out of those surveyed, 64.9% admitted to low levels of physical activity. This does not mean that GNC would be unsuccessful in Argentina, and here is why; 71.6% of American adults are overweight, and they are still successful in the United States.

Fitness in Argentina, however, seems to be very popular despite the statistics of overweight adults. For example, Argentina has over 7,900 sports and fitness clubs, which is the third highest number of sports clubs in any country in Latin America. Argentina also ranks among the top five countries in the world in terms of doing the most physical activity. We believe that the diet of Argentinians contributes more to the obesity of Argentinian adults rather than their amount of physical activity.

Major cities in Argentina have plenty of modern gyms and fitness clubs that you can go to, but remote areas and smaller towns and villages have less resources. Football (soccer) is a particularly popular sport, so it is likely you will find pickup games as a popular pastime.

Choreographed dance classes, like zumba, are also a popular form of exercise.

All in all, based on the popularity of physical activity in Argentina, I believe that GNC will have no problems selling health and wellness products in this country.

Political Evaluation

After many political turmoils in the 1900s, Argentina officially transitioned to a civilian-led democracy in 1983. Argentina's government is currently a presidential representative democratic republic, with Alberto Fernandez as the current head of state and government. The two largest political parties are the Justicialist Party, which evolved from Peronism in the 40s,

and the Radical Civic Union Party, established in 1891. According to last year's Freedom House report, Argentina scored 35 out of 40 points in the political rights section. Free and fair election processes for both the president and legislative representatives gives Argentina a high score for this category. While the government struggles to enforce some electoral laws, Argentina still holds one of the most stable governments in South America. As the two nations uphold strong democratic values, the United States and Argentina maintain a bilateral relationship. Both countries work together to combat corruption in the western hemisphere as well as the pandemic and national recovery from Covid-19. The positive relationship between Argentina and the U.S. is beneficial to the entry of foreign firms into the market.

Demand for the client's offerings in the target country

The overall population of Argentina is approximately 46,133,450 people. Additionally Argentina has a purchasing power of 43.14 NCU per US dollar. Our target market will be men and women who live an active lifestyle between the ages of 18 and 55 years old. Argentine culture highly values and prioritizes sport in their daily lives. For example, soccer (fútbol) will be seen played in the streets quite often by different ages, sexes and economic backgrounds. Similarly, dancing is a large part of the culture as well. Both of these sports typically require an active lifestyle and are a large part of Argentine social life. On the other hand, Argentinian consumers tend to be conservative and rational with their income. Therefore, they tend to buy necessities and have a lack of brand loyalty when a similar product is cheaper. In 2022, however, "Food & Beverage" was the third largest ecommerce market with "Health & Wellness" trailing behind as the sixth largest ecommerce market. These statistics show that there is a consumer market for the products sold by GNC. With proper marketing strategies, GNC should be able to

market their products as “necessities” in the active lifestyle world, enticing the target market to purchase their products.

Most of GNC’s primary competitors in Argentina would be competitors they already have within the US such as Abbott Nutrition Inc or Clif Bar Company. These competitors offer many forms of sports supplements ranging from forms of protein supplements to necessary vitamins and electrolyte supplements. Some strengths of their possible competitors would be that they have a large global presence in the market of nutritional supplements. To be specific, Abbott Laboratories have a wide geographic reach of over 160 countries. Abbott also offers the Abbott Nutrition Health Institute which provides courses and resources to foster education on healthy lifestyles. Similarly, Clif Bar Company has a big global presence, especially in Europe. Clif Bar Company also has strong sustainability efforts to reduce their ecological footprint. Clif Bar pledges that all packaging will be reusable, recyclable, or compostable by 2025. In addition, Clif Bar Company is a part of Clif Corps, an employee-giving and engagement program which has 75% employee participation to give back to their communities. Clif Bar’s sustainable activities and efforts pose a major threat to a new firm entering the market. Weaknesses, however, of Abbott Nutrition Inc. and Clif Bar Company is that neither currently have large presences in Argentina. Therefore, GNC is on the same playing field in terms of entering the Argentinian market. GNC’s variety of products, health education, health recipes, and sports and performance knowledge gives them comparative advantages to Abbott and Clif. Specifically, GNC’s focus on sports will be attractive to many Argentinian customers who value bettering soccer and dance performances.

Resources and infrastructure of the target country

Key Resources

Argentina has many advantageous key resources that would support entry of a foreign market. The labor force has continuously increased in the past decade and includes 20,952,574 people as of 2021. Argentina also has an abundance of natural resources and raw materials such as iron ore, uranium, zinc, lead, silver, and copper. The Argentina Department of Foreign Affairs and Trade notes that the country has the world's "fourth largest shale oil, second-largest shale gas reserves, and the third largest reserves of lithium and abundant gold, copper, and silver." These rich resources make Argentina an attractive country for investment, business, and trade. In 2016, mineral resources and the mining sector accounted for 3.2% of Argentina's GDP, generating \$17.8 billion. Exports of agricultural raw materials have been declining and was reported at 0.74686% of merchandise exports in 2021. This could open up possibilities for foreign markets to enter Argentina.

Infrastructure

Argentina's infrastructure is ranked 92nd in global infrastructure rating. The country's Infrastructure is better than most countries in South America. Argentina's main forms of public transportation are colectivos or buses. Other public transportations in Argentina include trains, subways, taxis, and trams. The roads in Argentina are well maintained and are in position to make travel easier and faster. There are many miles of bike lanes in urban areas for people to commute by bike. Argentina has their own airline and has 19 major airports for air travel. The country also has 6 major ports for commercial shipping and 6,804 miles of waterways. 75 percent of Argentina's foreign trade is done by ship. UPS and Fedex are big distributors of packages for Argentina. The well maintained roads allow for easy transportation for shipping trucks and delivery services. The country has an extensive railroad system that covers 4,791 miles. Argentina's technology ranks 91st in the world. Argentina recently invested 60 million

dollars in cyber security to help protect businesses. Investments for cyber security were made to protect the banking, energy, and telecommunications sectors.

Labor

Argentina has an Unemployment rate of 6.9% and the average median household income was \$40,094 USD in 2021. From 2010 to 2021 Argentina's median income has increased by 84.2%. Employees cannot work for more than 48 hours per week and must have 12- hour rest periods between working days. The minimum wage in Argentina is \$371.89 USD per month.

The growth of income from 2010 to 2021 shows that more money is circulating in the local economy of Argentina, making it an ideal candidate to enter the market. Likewise, working at a GNC requires good communication skills, but does not require much education, making the jobs accessible to people that want to work. At 98%, Argentina has one of the highest rates of literacy in Latin America, therefore, competent workers have the ability to be successful managers and salesmen.

The strategic importance of the country, now and in the future

In 2018 dietary supplements sales increased by 28 percent compared to the previous year. The total sales revenue of the market reached 27.4 million dollars in 2018 and is expected to increase to 39.9 million dollars in 2023. In this fast growing market it is important for GNC to capture a large market share of the supplement market. This will help them have first mover advantages and a competitive advantage over competitors. The covid epidemic has increased trends of maintaining a healthy diet and consuming supplements to meet nutritional needs. This trend will continue post covid and the supplement market will continue to grow. To establish the company in Argentina, GNC will get exposure to other geographic markets in South America.

Looking toward the future, it is very important for GNC to be present in Argentina, specifically in the Buenos Aires Province and Córdoba Province. These two provinces have a population of nearly 19 million people, and the population continues to grow. By entering Argentina, this company has a chance to be recognized by countries around the world with Argentina receiving a bid for the 2030 World Cup. It would be the 100th year anniversary of the World Cup, with many viewers being involved and interested in the world of health. Likewise, Argentina would be hosting the 2030 World Cup with three other Latin American countries including Paraguay, Uruguay and Chile. Therefore, GNC would gain exposure from the three latin american countries and potentially people from all areas of the world. This would be the perfect opportunity for GNC to market themselves with the most popular sport in the world.

The market for dietary supplements has interesting innovation characteristics that GNC must be aware of in order to gain a sustainable comparative advantage. GNC will need to pay attention to new scientific discoveries and work to create the best products they can. Innovation, however, in the dietary supplement market, mainly lies within supply chain efficiency, scientific discoveries of particular ingredients that could help or hurt a product, and transparency with the ingredients of products. Therefore, GNC will need to ensure it has an effective supply chain, especially when working with a foreign market, as well as transparency with their customer. GNC must conduct constant research to confirm that they are selling the best possible products for the human body. Paying attention to these key details will help GNC earn a competitive advantage that is hopefully able to be maintained in the future.

Final Recommendation

After assessing the risks and opportunities presented, CNC recommends that GNC proceed to enter Argentina. The stability of the Argentine economy along with the positive

political relationship between Argentina and the U.S. reduces the liability of a foreign firm entering the market. Argentina's passion for fitness and well-being, the rapidly growing market for dietary supplements, and the growth of income in Argentina in the past decade make the country an ideal candidate for GNC to enter. CNC thinks the most efficient entry strategy for GNC will be exporting to Argentina. Because GNC products can be sold in local convenience stores and supermarkets, there is no need for GNC to set up a wholly-owned subsidiary just yet. Exporting products and having them sold in local markets in Argentina will reduce the intimidation characteristic of a foreign product. It will also require little to no training for job opportunities because workers can continue working in established stores. CNC advises GNC to enter the market in Argentina in the highly populated Buenos Aires Province and the Cordoba Province. Gaining a first-mover advantage will also be beneficial to GNC, and there will be many opportunities to expand within South America and around the world, after succeeding in Argentina.

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