

# Five Lessons From Argentina To Ensure Commercial Success In Packaged Food Sales During 2009

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## Category Watch:

The 2001/2002 economic crisis in Argentina was part of a wider situation that affected Argentina's economy during the late 1990s and early 2000s and had a profound impact on the country's packaged foods market.

Macro-economically speaking, the critical period started with the decrease in real GDP in 1999 and ended in 2002 with the return to GDP growth, but the origins of the collapse of Argentina's economy, and its subsequent impact on the population, can be found in earlier events.

## Market background

According to Euromonitor International's Countries and Consumers database, real GDP fell by 0.8%, 4.4% and 10% in 2000, 2001 and 2002 respectively, only recovering to 1999 levels in early 2004. As of 2005, arguably the crisis was over, although many challenges remain for the country.

Consumer confidence in Argentina during this crisis period plummeted to record lows and negatively affected the sales performance of most consumer goods, including packaged foods. According to Euromonitor International, retail value sales of packaged food dropped by 4% in constant retail value over the 1999-2002 period.

Research shows that some companies, however, quickly adjusted their strategies to the deteriorating overall economic environment and managed to increase their revenue despite harsh market conditions.

Since 2001 domestic dairy products and baby food manufacturer SanCor has focused on setting fairly affordable prices for its premium liquid milk formula brands and even lower prices for its powder-format economy milk formula lines.

Furthermore, the company stepped up its investment in price discounting and promotions through supermarkets and hypermarkets. This resulted in an increased emphasis on the point of sale through incentives for distributors and salespeople, point-of-sale advertising, product sampling, special discounts and combo offers.

SanCor also began to reduce its advertising expenditure in 2001 and gradually scaled down the number of its products and packaged formats on offer. Furthermore, it replaced imported raw materials with less expensive local varieties and merged its refrigerated business with Dairy Partners Americas as a means to overcome Mastellone/Danone's logistical advantage.

During 2004 SanCor introduced massive changes to its brands and pricing strategy as a means to further coordinate and streamline itself. One of the changes concerned was limiting the number of product lines to only those offering a minimum margin per litre produced. Simultaneously, the company embarked on a cost reduction scheme that involved the restructuring of its sales force serving independent food stores and the reduction of branch offices to a minimum to ensure maximum efficiency.

## Case study for success

SanCor's strategy during the financial crisis in Argentina is a good strategic example of how to act during periods of economic downturn. Euromonitor International highlights five key lessons to be learnt from the manufacturer's strategy, which may be relevant across a large number of packaged food sectors during 2009.

### 1 Position yourself

The current credit crunch is set to further polarise the divide between premium and economy brands as consumers become increasingly reluctant to pay a higher price for 'brands in between'. Specifically, this means any product not offering enough differentiation to justify a higher price than its competitors.

Distinct price positioning into either the lower or upper end of the market will be crucial to convey a clear message to the final consumer - basic but inexpensive versus sophisticated but expensive. Mass-market 'in-between' brands offering standard health benefits but more expensively priced than private label stand to lose out in the current market environment.

### 2 Tap into existing strengths

Focusing on existing competitive strengths will be crucial to minimising costs and making the most of existing

infrastructure from previous investments. Instead of diverting resources to expand into retail channels where other companies, namely Nestl , held the upper hand, SanCor focused its efforts on supermarkets and hypermarkets.

The company was already the market leader in these channels and only needed minimal investment to maintain or expand the shelf space allocated to its products. Therefore, SanCor refrained from diverting valuable resources into other channels such as health stores and pharmacies, where companies such as Royal Numico and Nestl  had the largest shelf space and already enjoyed strong brand recognition and consumer loyalty.

### 3 Reduce costs to maximise flexibility

In harsher economic conditions, and with increasingly difficult access to credit, savings play a crucial role in the survival of manufacturers. By reducing the number of branch sales offices, cutting down on advertising in the mass media and reducing logistical costs, SanCor proved successful at saving resources and putting them into other strategic areas such as product promotions and price discounting initiatives.

This proved to be quite an effective sales strategy as offering consumers a competitive price is SanCor's core unique selling point. After weaning itself off mass-media marketing, the company's advertising was gradually reduced to high-profile signs in supermarkets and hypermarkets - where its products already had plenty of shelf space - which highlighted the price discounts and other promotions taking place at the time.

### 4 A good message made simpler is twice as good

In adverse economic conditions consumers tend to go for safer options and stick to a reduced but reliable number of products. Different consumer surveys in Western Europe and North America indicate, for instance, lower receptivity to new product developments because consumers cannot afford to potentially waste money on 'untested products'.

By focusing on selected products within milk formula, SanCor managed to convey a message of simplicity to the end consumer which proved especially effective in terms of sales. SanCor's brands were reduced to only a few baby food products - powder formula was positioned in the economy segment while slightly more expensive liquid formula was positioned at the semi-premium but 'affordable' end of the market. The end consumer understood clearly that SanCor's baby food provided two options - basic or slightly sophisticated but both at a lower price point than its immediate competitors.

### 5 Smaller players can punch above their weight even during hard times

SanCor's baby food sales in Argentina grew in the face of stagnant consumer demand and a general economic meltdown, taking share from far larger players with higher financial capacity for investment and a wider product portfolio in the process. SanCor's retail share of the baby food market in Argentina increased from 17% in 2001 to 24% in 2005 alone.

Meanwhile, Nestl 's share dropped from 56% in 2001 to 46% in 2005. In addition to greater competition from SanCor, Nestl 's plight was further exacerbated by a public health scare in 2005 in which its Enfamil brand was accused of contributing to the death of several infants.

This case study demonstrates that small and medium-sized manufacturers can turn adverse economic conditions to their own advantage. Clear brand positioning, efficiency and cost-cutting policies, identification of the company's strengths and a distinct message on price are all strategies that, when appropriately combined, provide a competitive edge during periods of economic uncertainty and even outright downturn.

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