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Regional Market Strategies of Supermarkets and Food Processors in Extended MERCOSUR

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This article examines regional actions among supermarket chains and food manufacturers (second-stage processors) in the extended MERCOSUR. It highlights the emergence of 'regional multinationals' operating in this market, which compete and sometimes co-operate with 'global multinationals'. The harmonisation of customs regimes, the reduction of trade barriers such as tariffs and quotas, and the deregulation of foreign direct investment, have allowed multinationals – regional or global – to step up their regional activities. They increasingly undertake regional marketing strategies, are increasing their investment in the region's markets, and are causing new regional procurement systems to emerge.

Other articles in this volume examine in detail the development of the supermarket and food processing sectors in Argentina, Brazil, and Chile. This article looks at the emergence of regional actions and strategies in the extended MERCOSUR region as a whole (the economic group of Argentina, Brazil, Paraguay and Uruguay, plus Chile as part of a political extension of MERCOSUR). The process includes the growth in scale of the participating firms, and the shift towards the agrifood industry in a market with regional strategies. This process started in the 1980s and intensified with the establishment of MERCOSUR with the signing of the Treaty of Asunción in 1991.

In the next few years the reduction in import tariffs among the member countries is supposed to be finalised, in spite of problems of macroeconomic co-ordination. This will make the region a fully free trade area with a combined GDP of more than US$1 trillion and a population of more than 200 million. The lure of this regional market is driving leading agrifood firms to formulate their business strategies for a regional market.

From the strategic viewpoint, the market of the four member countries of MERCOSUR is a single market for food manufacturers and retailers. Regional trade in agrifood goods and services increased by 400% – from US$5 to nearly US$20 billion from 1990 to 1997-8 – and then dropped by 25% when recession set in in 1999-2001. More than half of Brazil's imports from its neighbours come from agriculture or agroindustry. This is related to the fact that both domestic and multinational firms are making investments in the improvement of food distribution systems.

A key point of this article is that, since the founding of MERCOSUR, various 'regional multinational' firms have emerged. They share the market with what we shall call the 'global multinationals' (to distinguish multinationals with headquarters in North America, Europe, or Japan) and seek to co-ordinate production and warehouse logistics

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and product distribution over the MERCOSUR region. A regional-level logistical system is beginning to develop as an underpinning of the regional activities of both the regional and global multinationals. These firms are linking local production to the regional market by means of constant movement and juggling of product inventories and location of plants.

Supermarket chains (global-multinational or domestic) are also reorganising themselves regionally, to occupy market territory in the region. A series of mergers and acquisitions reveal a strategy of capturing new territory, to obtain strong market share in the region as a whole. This is an extension of the process of retail internationalisation which up to the 1980s was concentrated in only a few regions, such as US retailers entering Canada, European retailers entering other European countries, or Asian retailers expanding in the Pacific region. Today the supermarket chains, what are now the global-multinational retailers, are crossing oceans, sourcing and selling globally, driven by the strong competition in domestic markets and retail consolidation in the 1980s.

To analyse these trends in the context of the extended MERCOSUR, we begin with a general discussion of the themes and then examine the data on the regional strategies of food manufacturers (second-stage processors) and then supermarket chains.

Regional strategies of food firms – historical and conceptual perspective

The quest for scale and reduced transaction costs

North and Wallis (1994) note that there is a permanent tendency for processing costs to fall but for transaction costs, such as supervision, management, marketing and, with physical expansion of markets, transport costs, to rise. It becomes crucial for firms to reduce transaction costs by means of access to information. With market expansion, there is a reduction in production costs because of economies of scale, and there is an intensive quest to reduce transaction costs.

Chandler (1987) identified the commercial and transport revolution that occurred in the mid-1800s in the United States as a key driving force in industrial development. The introduction of railroads and the opening of transport canals in the Great Lakes region of North America increased market size and reduced distribution costs – crucial from the perspective of North and Wallis. The ensuing market expansion was both cause and consequence of firms' developing regional production, distribution, and marketing strategies. Beyond simply reducing transaction costs, investment in regional logistics systems is justified by requirements of scale and scope of production to be able to compete at a regional level.

The factors, in Latin America as in other regions, that today drive scale are logistical systems based on computers and telecommunications, trucks and cold-chains, and distribution centres to reduce inventory costs. These systems require tight co-ordination between suppliers and processors and retailers.

Supporting the development of logistical systems is organisational change – in particular the innovations in types of associations of firms that are being used to seek synergies and competitive advantages. These are treated in the literature on supply-chain management. These new structures – such as joint ventures and strategic alliances – combine chain co-ordination with flexibility. The chain co-ordination aspect allows the leading firms to know and co-ordinate the actors along the supply chain, from producers to processors to distributors. But the co-ordination is undertaken with flexibility, and with information-sharing along the chain. The objectives are to reduce 'down time' in the system, improve quality, and reduce production and transaction costs.

There has been a shift over time, in particular marked by the shift from 'pre-globalisation' to the globalisation period starting in the 1990s, in the frequency and intensity of use of the new organisational forms, particularly by global multinationals seeking to enter regional markets. We turn next to the general organisational strategies and determinants of global multinationals' entry into regional economies as the context for the subsequent discussion.

Determinants of global-multinationals' entry into developing regions

Chesnais observes an organisational difference in global-multinational entry strategies before globalisation and with the start of globalisation (roughly in the late 1980s to early 1990s, depending on the region):

> What is new is that firms use combinations of international investments, commerce and international cooperation between firms in strategic alliances, to assure their international expansion and rationalize their operations. The international strategies of the past, based in production for export, gave rise to new strategies, that combine a series of activities that cross borders: exports, foreign investments, and international alliances. (1996: 27)

Oman et al. (1988) note that multinationals tended to start in the 1980s with a strategy of sub-contracting suppliers and forming alliances with local distributors.

Gonçalves (1991) comments that according to traditional theory the decision of multinational firms to operate in a given country depends on: (i) the comparative advantages of property (licence concessions, risks and uncertainties, value of the technology to be transferred, and so on) and (ii) locational factors such as institutional conditions, taxes, and market policies. Add to that (iii) the eventual lack of suppliers of intermediate goods or the necessity to internalise knowledge of production techniques and product ingredients because of the risks that can arise with respect to local firms imitating opportunistically. (iv) The recent expansion of multinationals in developing countries was analysed by Oman and his colleagues (1988), Green (1989) and Rama (1992), who noted that the main motivation for entry was the size and growth rate of the consumer market (especially relative to stagnation in the home market).

However, in developing countries there are additional determinants of multinational entry: (v) the need to become more familiar with the local market, which can be accomplished by merger with or acquisition of local firms; (vi) the absence or relative lack of competition because of the weak local financial capacity for local firms (due to scarce own capital and weak banking sectors); local firms with strong participation in the market and good growth prospects become easy targets for their multinational competitors who can easily mobilise international capital and undertake leveraged buyouts; and (vii) the low technical level of local managers, not only in the production field, but also in marketing (brand, presentation, promotions) as well as the logistics linked to distribution.

MERCOSUR context and agrifood firm strategies

With the creation of MERCOSUR and the establishment of a legal and institutional space for doing business, local firms were able to take a step forward, as they were able to reduce costs by using commercial information, packaging, and marketing techniques. In other words, the creation of the common market with reduced fiscal and tariff barriers favoured the firms already in the region, putting them on an equal footing with foreign firms that had already done business outside their borders. Although foreign firms operating in MERCOSUR continued to enjoy access to financing from their parent firms, as well as global brands and the ability to launch new products more rapidly, regional firms did well, despite the fact that the competition became far tougher and it seemed to many that the global multinationals would easily dominate.

The strategy of the global multinationals in MERCOSUR, which in any case did not differ greatly from the strategies they pursued in other regions, was as follows. Up to the 1980s, these firms operated in a relatively isolated way, using their own suppliers and with their expansion determined by whether there was a market for their product, cheap labour, and monopolistic profits to be earned. This was the case with a number of giant firms such as Parmalat, Nestlé, and Unilever. Early 1990s surveys in Brazil observed that the Brazilian offices of these firms maintained direct contact with their home headquarters, similar to that in other countries in Latin America. During the 1990s, however, many of these operations were aggregated and command and co-ordination started to be carried out at the regional level (Belik, 1995).

In the 1990s, there was a change in orientation. Many global multinationals, mainly those in the agrifood domain, began to regard their markets as inter-linked. Although product launching strategy was still defined by the home office and adapted to local conditions, decisions on pricing policy, selection of suppliers, adaptation of production to local raw materials, packaging, imports and exports were made by local offices.

These trends were partly interrupted by the crisis in MERCOSUR caused by macroeconomic problems in Brazil in 1999 and 2000 and now in Argentina.[1] Until the mid-1990s a certain euphoria obtained among agrifood firms in the extended MERCOSUR as there was a huge influx of FDI with concrete initiatives integrating/co-ordinating supply systems. There then followed a sharp reduction of FDI in the agrifood sector of MERCOSUR, which coincided with a general tendency in the private sector globally, because of the North American recession. FDI in MERCOSUR fell by more than 40% during 2000-2001. Latin America and the Caribbean received US$110 billion in FDI in 1999, falling to US$80 billion in 2001 (United Nations, 2002).

With the devaluation of the Brazilian currency in January 1999, the Argentines sought to protect themselves with selected surcharges, quotas and other barriers to the now cheaper Brazilian exports. The Brazilians retaliated with a prohibition of the import

1. From a juridical and institutional viewpoint, the crisis was aggravated by US insistence on the approval of the FTAA (Free Trade Area of the Americas) in the short term and, more recently, the power given to the US President to sign ‘fast-track’ bilateral agreements without the approval of Congress.

of Argentine beef because of foot-and-mouth disease. These actions constrained (probably only temporarily) the reduction of barriers to intra-regional trade and thus the steady improvement of conditions for agrifood firms to work regionally.

In 2001, with the Argentine crisis, many Brazilian firms stopped their investment in Argentina and a number of Argentine firms moved to Brazil to take advantage of cheaper labour, fewer taxes, and a more favourable exchange rate. Even so, in bilateral trade between the two countries, Argentina has a trade surplus of US$1.2 billion.

From the point of view of macro policy, the members of MERCOSUR marched together up to the end of the 1990s, not because of explicit co-ordination but because each government was pursuing its own structural adjustment programme. The hyperinflation of the end of the 1980s was substituted by a long period of stability anchored in a fixed exchange rate and parity with the dollar. This favoured revaluation of the currencies, leading to external debt and a stronger integration with foreign capital.

But by the end of the decade there were divergences. In 1999, Brazil changed to a floating exchange rate, forcing down the balance of trade of its neighbours. Around the same time Argentina reduced its import tariffs (now among the lowest in Latin America), thus favouring triangular operations which directly affected Brazilian products such as milk. Argentina's maximum tariff applied to products imported from outside MERCOSUR is 22%, as compared with 70% in Brazil. The averages are 15% and 21% for Argentina and Brazil, respectively. Despite Argentina's lower tariffs, surcharges are applied to chicken, sugar, and other Brazilian products. Brazil counters with a surcharge on Argentine dairy products and imposes restrictions on Argentine beef, citing foot-and-mouth disease as the reason.

Despite the challenges faced in the late 1990s, overall there have been significant advances in MERCOSUR integration since 1991. There has already been significant integration in transport and legislation. For example, the regulations regarding the equivalence of systems of food inspection are already in place, based on international standards such as WTO agreements and the directives of the *Codex Alimentarius* Commission of FAO. Food products can therefore circulate in MERCOSUR using only their local health certification which is now valid regionally.

Food processing firms in MERCOSUR: the emergence of 'regional multinationals'

The food industry was the main target of mergers and acquisitions (M&A) in Brazil in the 1990s. Viegas (2002) shows that there were 2,127 M&A between 1994 and 2000 in Brazil, 269 of them (12%) in the agrifood sector and 57% by foreign firms. Several studies reveal a preference for the agrifood processing sector in FDI (Belik, 1994, 1998; CEBRAP, 1998). In general this can be explained by the anticyclical character of the market and by its growth potential in the medium and long run (Rama, 1992).

Similar trends were occurring in other MERCOSUR countries. There were a number of M&A in the food processing sector in Argentina (Viegas, 2002). The effect of these on the Argentine economy was proportionally greater than in Brazil simply because the food sector is the main industrial sector in Argentina, about 20% of industry, whereas it is only 10% in Brazil. Both countries have experienced rapid growth in the food sector which is growing faster than overall industry (excluding construction and mining) (see Table 1).

Table 1: Food production in Argentina and Brazil,1993-2001

	Brazil			Argentina	
	Overall industry[a]	Food except beverages	Beverages	Overall industry[a]	All food and beverages
December/93	100.0	100.0	100.0	100.0	100.0
December/94	118.9	104.2	131.4	104.4	113.4
December/95	103.9	120.3	131.1	93.2	108.8
December/96	111.3	114.5	133.3	103.1	114.3
December/97	106.5	116.1	131.7	112.3	121.1
December/98	101.8	116.9	137.9	105.3	130.9
December/99	111.3	120.1	141.5	113.9	128.0
December/00	118.0	124.5	140.9	111.7	126.3
November/01	128.3	145.0	132.0	98.4	120.7

Note: a) Excluding construction and mining.
Sources: Central Bank of Brazil and Ministry of the Economy, Argentina.

A particularly interesting phenomenon is the rise of regional multinationals, a new kind of processing firm in the extended-MERCOSUR countries. These are highly visible in the trade press, but have been examined very little in the research literature.

With the rapid process of M&A in the 1990s, a number of firms (which eventually emerged as regional multinationals) were large domestic firms buying smaller firms, until they attained a large size.[2] They then invested in other Latin American countries, mainly in the extended MERCOSUR, but, as shown below, not limited to it. They have thus become regional multinationals. Here, as illustration, is a brief profile of a few of the new giants:

- Companhia de Bebidas das Américas (AmBev) (www.ambev.com.br) is now the third largest beer brewer in the world and the fifth biggest beverage company, with annual earnings of US$5.73 billion. Before May 2002, the Brazilian market accounted for 95% of its earnings, with only small operations in Argentina, Uruguay, and Venezuela. In May 2002 it took a minority stake in the leading Argentine brewer Quilmes Industrial S.A. (with US$1 billion sales a year).
- The Macri Group (www.socma.com.ar) has US$2.3 billion of annual sales, and is based in Argentina and operating in Brazil and Uruguay as well. It has a wide range of activities in construction, computers, and in the food sector, in dairy, meat, and flour products.

2. The top ten in MERCOSUR figure among the largest agribusiness firms in Latin America: Grupo Pão de Açúcar (30), Bunge Brasil (53), Brahma (bought by AmBev) (82), Copersucar (152), Arcor (177), Perdigão (225), Quilmes (251), Mastellone (279), Antarctica (bought by AmBev) (284), Molinos Rio de la Plata (297) (*Gazeta Mercantil*, 2001a).

- Arcor (www.arcor.com.ar) produces a range of sweets, biscuits, processed fruit and vegetables, and flour products. It has subsidiaries in Brazil, Chile, Peru, Mexico, Uruguay, Paraguay, Colombia, Ecuador, Bolivia and Florida. It has 31 plants, 25 in Argentina, 2 in Brazil, 3 in Chile, and 1 in Peru, and exports to more than 100 countries. It had US$1.15 billion in sales in 1999.

Given their knowledge of local suppliers of raw materials, the regional culture, and marketing channels, these regional multinationals have been able to expand rapidly, although their presence outside their own countries is still weak compared with that of the global multinationals.

The large domestic firms in the countries of the extended MERCOSUR invested in other countries in the region as much in response to pull factors – to increase scale and to take advantage of market opportunities and deregulation of investment – as because of push factors – as a defensive measure to occupy market territory. Table 2 shows a

Table 2: Emergence of regional multinationals

Who	What	How	Where
Sancor (Argentina)	Dairy products	FDI in plant and own distribution	Brazil
Mastellone (Argentina)	Dairy products	FDI in plant and own distribution	Brazil
Mikalt (Argentina)	Dairy products	Acquisitions and own distribution	Brazil
Conaprole (Uruguay)	Dairy products	FDI	Brazil
Sadia (Brazil)	Meats and feed	Partnerships for production, and Distribution Centre	Argentina
Averama (Argentina)	Meats	Plant, and local production of birds	Brazil
Perdigão (Brazil)	Meats	Distribution Centre	Argentina
Socma (Argentina)	Meats	Building local plants	Brazil
Chapecó (Brazil)	Meats	Distribution Centres	Argentina
Brahma (Brazil)	Beverages	FDI in production and distribution	Argentina
Malteria do Pacífico (Chile)	Beverages	Local plants	Brazil
Antarctica (Brazil)	Beverages	Distribution	Argentina
Macri (Argentina)	Biscuits and meats	Acquisition of local plants for production	Brazil
Arcor (Argentina)	Sweets and biscuits	Installation of local plants and marketing offices	Brazil and Chile
Garoto (Brazil)	Sweets and biscuits	Distribution centre	Argentina
Mabel (Brazil)	Sweets and biscuits	Installation of plants	Argentina
Arisco (Brazil)	Vegetables	Local processing and production	Argentina
Algar (Brazil)	Vegetables	Local processing and production	Argentina
IANSA (Chile)[a]	Vegetables	Acquisition of local plants	Brazil
Molinos Argentino (Argentina)	Grains, meat and flour	Acquisition of local plants and warehouses	Brazil and Uruguay
Ceval (Brazil)	Oils and cereals	Acquisition of local plants	Argentina

Note: a) They have a joint venture with the French Bonduelle.
Source: By authors based on the trade press and interviews

selection of important recent FDI actions among firms in Brazil, Argentina, Uruguay and Chile within the extended MERCOSUR region. Purely exports or imports of products, or investments outside the area, have been omitted from the table. (Note, however, that Mexico and Venezuela have a significant presence in the area.) There are distinct levels of actions of the regional multinationals, varying from straightforward alliances with local firms to distribute their products, all the way to FDI and the installation of plants. In this sense, the approach of the regional multinationals does not differ from that of the global multinationals. Moreover, there is a certain product specialisation among their home countries. Argentina-based firms tend to deal in dairy products and Brazil-based firms in poultry, a division which goes along with national vocation and competitive advantages.

There are also important cases in the sector of canned foods, biscuits, and sweets. Here there is an intense struggle among Brazilian and Argentine firms to invest in and penetrate each other's markets, all with an eye to defending territory and expanding in the face of competition from the global multinationals. The struggle takes place during the ups and downs of the two countries' economies and policies (such as the exchange rate and tariff or other trade barrier policies), without any change in their long-term competitive strategies. The table shows many cases where a new competitor enters through FDI or alliance with a local firm; most of these investments include the establishment of distribution systems involving both raw and processed products flowing between the subsidiary and the parent firm.

Table 3 shows similar types of activities, mainly M&A, carried out by global multinationals in food processing in the extended MERCOSUR area. After 'prospecting' the market, the firm starts a local operation either as FDI or a straightforward takeover of a local firm with a strong presence in the local market and good marketing channels. By far the main means of entry is M&A, since the multinational wants an immediate response to competition and not the slow build-up of an operation from scratch; even when one observes other strategies at a given moment, examination of the earliest stage of its penetration usually reveals M&A as the first step (Martinelli Jr., 1999).

Recently, the devaluation of the Brazilian real in 1999, the overvaluation of the Argentine peso, and the recession in Argentina led to migration of Argentine capital to Brazil; this meant an acceleration in flows that were already occurring. CEBRAP (1997) showed that between 1994 and 1996 the nationality of the firm most often acquiring firms (subsidiaries or home firms) in the Brazilian food sector was Argentine. The Macri Group of Argentina (see above), whose sales in Brazil amounted to 50% of its total sales, had acquired the cold storage Chapecó in Brazil in 1999 and continued to expand its business in Brazil, acquiring more biscuit firms in 2001 and planning additional acquisitions at least to the end of 2005, and building new plants and launching new products (*Gazeta Mercantil*, 2001b). Other Argentine processors that crossed into Brazil include Perez Companc, to cite merely one leading firm. One attraction was that the interest rate charged by the Brazilian Development Bank (BNDES) was only 3% per year compared with the going rate of 12% in Argentina.

The consequence of a decade of intense FDI on the part of the regional and global multinationals was rapid consolidation of the food processing sector in the region. Jank et al. (1999) note a rapid consolidation and high levels of concentration and multinationalisation in the Brazilian agrifood products export sector, including processed or semi-processed products, in the 1990s. The subsidiaries of global multinationals are exporting or even assuming the role of distribution agents. In 1998, 45% of soy products exports, 40% of pork, 35% of chicken meat, and 20% of orange juice were exported from Brazil by global multinationals. The latter benefited, in comparison with Brazilian firms, from relatively easy investment and working capital from their parent offices.

Table 3: Expansion of global multinationals in the extended MERCOSUR

Who	What	How	Where
Parmalat (Italy)	Foods, general	Acquisition of local plants, joint ventures, and distribution centres	Brazil, Argentina, Uruguay, Chile and Paraguay
Danone (France)	Foods, general	Acquisition of local plants, joint ventures, and distribution centres	Brazil, Argentina and Uruguay
Bunge Group (Argentina)	Foods, general	Acquisition of local firms and reinforcement of trade and exports outside the extended MERCOSUR	Brazil, Argentina and Uruguay
Cargill (US)	Meats and grains	Export	Brazil, Paraguay and Argentina
Dreyfus (France)	Grains	Export	Brazil and Argentina
Unilever (UK/Netherlands)	Foods, general	Product launch in the region in joint ventures	Brazil and Argentina
Philip Morris (US)	Sherbets and chocolates	Product launch in the region	Brazil, Uruguay and Argentina
Heublein (US)	Beverages, general	Joint ventures	Brazil and Argentina
Moët & Chandon (France)	Wines	Joint ventures	Brazil and Argentina

Source: By authors from the trade press.

But selling to the rapidly growing domestic markets, in order to establish a presence in the local and regional markets, was more important than exporting in attracting FDI to the region. The share of the global multinationals' output that goes to the domestic market usually far exceeds that exported outside the region. Exports of coffee, soy, and sugar are only around 20% of total output in Brazil. The exception is orange juice in that most of it is exported, but most of the oranges harvested are still consumed fresh in the Brazilian market (Laplane and Sarti, 1999; Graziano da Silva, 2002).

At the end of the 1980s and during the early 1990s, FDI was linked to the de-verticalisation and sub-contracting of production, and its reduction due to the drop in demand during the recession. With the beginning of the stabilisation policy in 1994, in contrast, there was new investment to meet the demand of the rapidly growing domestic market.

Another important change was the rise of intra-firm trade. In the case of the global multinationals, there was a substantial reduction in the flow from headquarters to the subsidiary. Imports of products from parent firms to subsidiaries in Brazil dropped from 47.9% of the total of food industry imports in 1989 to 20.9% in 1997. In the case of exports from subsidiaries to parent firms there was a fall from 5.7% of total exports of the agrifood industry to 3.6% over the same period. This should be compared with the rise of commerce between subsidiaries (of the same firm) intra-MERCOSUR from 2.5% of food industry exports to 32.5% over the period 1987-97; the counterpart figures for imports were from 6.2% to 14.4% (Laplane and Sarti, 1999).

Supermarkets in the region – rapid expansion by global multinationals, modest emergence of regional multinationals

Until the 1990s, the supermarket sector in the MERCOSUR countries was mainly financed by domestic capital, with limited operations in terms of geographic markets (local or city) and technical and organisational capacities. Despite a few innovations such as installing bar-code readers at the cash registers, there were few incentives to make important investments in logistics or information technology or in management. This is key to understanding how supermarket chains functioned in Brazil at the time. Inflation, which had reached 90% a month, enabled large profits to be made in the financial market, providing an incentive for firms, among them supermarkets including the global multinationals, to develop strategies compatible with this context (Belik and Rocha dos Santos, 1997).

Starting in the 1990s, the deregulation of foreign investment and the stabilisation of currencies completely changed the scenario for supermarket chains in the region. With intense competition and profit reductions as well as increased legal restrictions in their home markets, growth in scale for the large US and European retailers required international expansion. The increase in mergers and acquisitions in MERCOSUR was extremely rapid, as global retailers fought over the best positions in the market.

Despite the propitious structural conditions for the development and modernisation of the retail sector in the countries of the extended MERCOSUR – such as high rates of urbanisation, mass transport, urban food consumption habits, and the participation of women in the workforce outside the home – the retail market remained fragmented and relatively underdeveloped until the early 1990s. Like the food processing sector, supermarket chains were protected from international competition by restrictions on FDI. With the opening up of economies in the early 1990s, and on its heels the monetary stabilisation, there was an influx of FDI in retailing in the whole region. Global supermarket chains, with their economies of scale, logistics, and bargaining power with global suppliers, took advantage of this situation.

The FDI took place directly, via the establishment of stores (by Carrefour (France), Wal-Mart (US)), by the acquisition of local chains (by Sonae (Portugal), PROMODES (France), Royal Ahold (Netherlands)), or even by joint ventures with local firms (by Casino (France)). Some were already in the region well before the 1990s, such as Carrefour, which built its first hypermarket in Brazil in 1975 and in 1982 in Argentina. But Carrefour, which until recently built only its own stores in Brazil, has now begun to acquire local chains or part-ownership in them, as in the case of its purchase of 50% of the shares of Eldorado de Supermercados. Via the firm Comptoirs Modernes, it bought 23 of Lojas Americanas stores, five of which changed their name to Carrefour and the others to STOC. In 2001, however, Carrefour sold some of its STOC stores to Royal Ahold and Sonae; the Sonae group bought various chains and also built hypermarkets in Brazil. In the first half of 1999, the supermarket sector in Brazil was only behind that of telecommunications, which was being privatised, in M&A. Recently Casino bought 23.98% of the stocks of the domestic chain Pão de Açúcar, and Royal Ahold bought the domestic chain Bompreço in August 2000. Overall, in Brazil as in Argentina and Uruguay and now Paraguay, there is an overwhelming presence of global supermarket chains, especially those based in Europe.

Moreover, the rapid influx of global multinationals led to rapid consolidation of the supermarket sector in the region especially after 1995, with the five leading chains having 40% of the sector in Brazil and 57% in Argentina by 2000. In 1998, the 20 largest chains in Brazil experienced growth of 17% in sales relative to 1999, reflecting an explosion of M&A that intensified at the end of 1997, with firms' rankings changing almost every month. Starting in 1998, for the first time the sales of the leading 20 firms exceeded the sum of the other 280 chains in the list of ABRAS, the Brazilian supermarket association (ABRAS, 2001). Farina (this volume) gives the rankings of the top 10 firms in 2000, and six of them are global multinationals on their own or in joint ventures with domestic firms. Gutman (this volume) shows that in 2000 the top seven chains controlled 77.5% of the supermarket sector, and only two of them were financed by domestic capital (with only 15% of the market between them). She notes that one of the most important chains in the 1990s was Disco, formed in 1961 by Grupo Velox with Uruguayan/Argentine capital, an early regional multinational set up before MERCOSUR – but then acquired by Royal Ahold. She also notes that Jumbo, a Chilean firm, has 5% of the Argentine market and is in the top seven, also a case of early FDI in the region, from Chile into Argentina, before MERCOSUR.

Chile is the exception in the above process. Faiguenbaum et al. (this volume) show that its supermarket sector is somewhat less concentrated, and is dominated by a domestic chain (D&S, which also has investments in Argentina) with about 30% of the sector; the nearest global multinational has only 10% of the sector. This is Santa Isabel, which is part of the firms controlled by Royal Ahold in the extended MERCOSUR, in Argentina (Disco), Paraguay, Peru, and Chile (Santa Isabel), and Ecuador. Among the chains which are fully foreign there is only Carrefour with 1.7% of the supermarket sector.

It is probable that the importance of regional multinationals is so much greater in the processing than in the retail sector because of the size of domestic processing firms before liberalisation, compared with the relatively weak and fragmented retail sector. Moreover, while processing relies on strength in production processes which Brazil and Argentina clearly had in their domestic firms (despite subsequent consolidation and multinationalisation), retailing relies mainly on capacity to organise distribution systems. Just as we noted above that railroads were once the key to success in such systems, in modern commerce the key is logistical systems, management of inventories (such as the use of Electronic Data Exchange (EDI) and efficient consumer response (ECR)) and category management.

The global multinational retailers had strong advantages in the use of these systems, in many of which they were either the inventors or leading innovators on a global scale.

Their experience in other regions also gave them an advantage in marketing. The installation of certain systems reassures the consumer and also acts to reduce co-ordination costs in the supply system. An illustration is the use of quality certification. Carrefour introduced a quality certification system for 10 products in Brazil and for all its perishables. Any producer with the quality certificate can sell both in Carrefour stores in Brazil and anywhere else in the world. Pão de Açúcar, historically a domestic firm (now in a joint venture with Casino), has a certification line in meats and meat products, visiting farms to control quality and controlling the reception points in its stores. In 30 stores, the meat sold is controlled and verified from birth to slaughter in order to receive the quality certificate.

Moreover, the global multinationals introduced important logistical and computer systems. For example, Carrefour hypermarkets in France eliminated food stocks in 1998, and the aim is for their stores in Brazil and Argentina to follow suit, with warehouses cut down to a tenth of their current size. Carrefour constructed a centralised distribution centre in São Paulo in order to cut costs of transactions with suppliers; this centre is operated as a joint venture with the joint venture Cotia Trading (a Brazilian wholesaler) and Penske Logistics (a logistics firm based in the US), serving 3 states with 40 hypermarkets and 11 STOC supermarkets – Comptoirs Modernes). Distribution centres are also planned for the northeast and the centre-west regions. The Sonae group, which already operates distribution centres in Rio Grande do Sul and Paraná, is planning to build a large centre in São Paulo.

Regional and global sourcing are also in the offing for the retail sector in the region. Carrefour already uses a global sourcing network for its fruit producers in Brazil. Casino, already present in Argentina, Uruguay, and in various Andean countries, recently entered the Brazilian market. At present, its distribution centre (Leader Price) is in Argentina, and one of the goals of its joint venture with Pão de Açúcar is to develop a line of retail brands (*Gazeta Mercantil*, 1999b). In return, Pão de Açúcar will have access to global sourcing via Casino, principally in Asia.

Even the smaller supermarket chains are setting up buying associations to create economies of scale to improve the management of logistics and sales in order to be able to compete. The associations work with independent wholesalers, or with networks of wholesalers such as the International Grocers Alliance (IGA of the US, see www.iga.com), specialising in management technologies and the establishment and management of small and medium-sized supermarket stores as franchise systems.

The objective of the logistics is to shorten the distances from suppliers to buyers and to reduce stocks in hand. For the supermarket chain this means a presence (say in a distribution centre) near the suppliers, and for suppliers it means meeting the needs of the retailers rapidly. As the scale of purchasing by the supermarket chains increases with multi-zone and then national and regional distribution centres and procurement networks and sourcing systems, suppliers are working towards greater flexibility in order to meet greater volume needs and quality specifications. Managing the sourcing system using up-to-date computer systems is also a challenge for the supermarket chains on a regional scale. A regional procurement system requires greater standardisation of packaging, measures, labels, and even bar codes and inspection labels that facilitate the use of EDI and ECR, both techniques to minimise the costs of stocks in hand and transaction costs in general. Government policy harmonisation throughout the region also plays a role here: the Argentine and Brazilian governments are currently trying to create a common inspection label for meat to facilitate trade.

Although suppliers and retailers are working towards cross-border procurement systems in the region, there is still little development of distribution centres designed to serve various countries of the region at the same time, apart from Casino's centre in Brazil and its operations with Pão de Azúcar. However, some firms, such as Quaker and Nestlé, are setting up large centres to supply various MERCOSUR countries simultaneously. Again, to the extent that MERCOSUR governments reduce trade barriers (including trade retaliation), it will be easier to set up such regional and even continental procurement systems linking suppliers and retailers.

Conclusion

MERCOSUR, as a large and dynamic free trade area, has attracted large amounts of FDI in the food processing and retail sectors both from big domestic firms (which in turn became regional multinationals) as well as from global multinationals. These firms were seeking economies of scale and scope, and in particular to tap into the rapidly growing domestic market, as well as, to a much lesser extent, exporting outside the region. In addition to FDI these firms brought technological and managerial change (with new logistical systems) as well as organisational change, including the setting up of distribution centres to source their products from large areas at national level and emerging systems at regional level, and the creation of joint ventures and strategic alliances.

The development of new institutions at the MERCOSUR level, such as sanitary regulations, common customs and tariff regimes, and other administrative impediments, favours such regional developments by reducing transaction costs.

While this regionalisation has benefited large domestic and global firms, it presents challenges to small firms as the new policy and competition context has brought rapid concentration of processing and retailing in the region. To broaden participation by the presence of smaller firms, it is necessary to have adequate public regulation of the market, in order to counterbalance the negative effects of the consolidation and globalisation processes.

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