



## Argentina: Franchising Industry

Diana Brandon  
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### **Summary**

The local franchising industry has mutated into a challenging and highly competitive environment for international franchisors seeking local partners. Current market size is approximately US\$ 6 billion, with an annual growth rate of 10%. Currently, over 90% of local franchises are of Argentine origin and approximately 10% are of international ownership. The currency exchange rate is a major impediment for foreign businesses in Argentine market. The new Administration came into power in December 2015. This is slowly going to change to a more positive environment.

### **Overview**

Development of franchising in Argentina has been uneven and shows a high level of concentration: 10-15 chains handle 36 percent of the franchises and 50 percent of the total turnover. There are approximately 400 franchise brands in the market. The percentage of local franchisers has grown considerably in the past decade, and now accounts for approximately 87 percent of the total number of franchisers. U.S. companies make up about 6.1 percent of the total and Spanish and Brazilian companies each account for about 1.9 percent of the total.

### **Market Issues and Obstacles**

Undoubtedly, the currency exchange rate (approximately 15 Argentine Pesos to 1 U.S. Dollar) is a major impediment for U.S. businesses to be accepted in the Argentine marketplace. There has been an ongoing inflation in the past year which continues during 2016. Also, there has been many Government regulations to transfer funds to foreign countries (i.e. Headquarters) and there has also been a protectionist government which has not been mended yet. The new Administration came into power in December 2015. This is slowly going to change to a more positive environment.

Franchise contracts are generally protected under the Argentine Commercial Code as opposed to being 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 franchiser and franchisee. Elements of the contract include: the license, methods/systems or proprietary information transferred to a franchisee, the supply of needed inputs, methods of sales, and quality standards, and ultimate control by franchiser of the contract elements.

Franchises have been successfully used in Argentina, but the obligations of the franchiser must be clearly delineated in the contract to avoid legal obligations associated with the operator, in case of default, bankruptcy, etc. Argentine law is unclear about franchiser obligations in case of bankruptcy or other commercial failings. Legal advice should be sought before signing contracts.