Elegant and sophisticated shops in Leblon district in Rio de Janeiro, Brazil

RIDING THE RETAIL BOOM

Latin America is perhaps the most exciting region in the world for retailers. The rising middle class, fast growth of e-commerce and the increase of female income are among the factors that make it vibrant.

BY GIDEON LONG

When management consultants A.T. Kearney published their latest Global Retail Development Index (Grdi), it gave a graphic illustration of just how vibrant the Latin American retail scene is at the moment. For the third straight year, Brazil topped the index in 2013. It is, according to A.T. Kearney, the best country in the world to invest in retail. Brazil was not alone. Chile placed second in the rankings, and Uruguay leapfrogged China into third. Perú, Colombia, México and Panamá all finished within the top 25.

An expanding middle class, benign inflation and sustained economic growth helped make Latin America perhaps the most exciting retail region.

According to Deloitte, Latin America's biggest retailers recorded average revenue growth of 14.7 percent in 2012 – the fastest rate in the world. The global average was 4.9 percent.

Where will the sector go from here? What do Latin America's new generation of consumers want, and how should the region's retailers provide them with it?

THE RISING MIDDLE CLASS

Perhaps the single biggest factor in the retail boom has been the extraordinary expansion of the middle class. According to the World Bank, 49 million Latin Americans became middle class between 2003 and 2009, and the figure is still rising. The number of people with disposable income has shot up.

Retailers have responded accordingly. Increasingly, their focus is on items that were once considered luxuries: electronics, fashion, home furnishings and vacations.

As people have moved up into the middle class, retailers have moved down to meet them. In Brazil, for example, big players like Marisa, C&A, which traditionally catered to the elite, are tailoring their assortments to shoppers on tighter budgets. "Many are creating standalone business units within the mother company to cater to the middle class," said Esteban Bowles, a senior retail analyst at A.T. Kearney. "Marisa, for example, one of the largest apparel and lingerie retailers in Brazil, is developing a unique position in business for the D classes (lower income)."

The good news for retailers is that there is room for further expansion – although the middle class has grown rapidly, according to the World Bank, 68 percent of Latin Americans have yet to be part of it. "The region is not yet a middle class society," the bank explained.

For retailers, that is an opportunity. By 2030, 42 percent of the region's population will be middle class compared to 29 percent in 2009, the bank estimated. Millions more Latin Americans will have disposable income to spend.

But, the growth of the middle class will be uneven. There are important differences within the region and retailers need to be attuned to them.

In Uruguay, for example, half the population is already middle class (defined by the World Bank as having an income of $10-$50 per day). However, in Brazil and Panamá, the figure is about a third, and in El Salvador and Honduras, less than a fifth.

There are also cultural differences to consider. One A.T. Kearney study found that while the average Argentine spent $175 on clothes in 2011, in Colombia, the figure

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PHOTO: MAURICIO LIMA/AFP/GETTY IMAGES/NEWSCOM

The Brazilian online retail industry, worth $11 billion in 2012, is forecast to hit $28 billion by 2017.

was just $36. While clothing accounted for 6.3 percent of retail spending in Argentina, in México, it was just 1.8 percent. The lesson for retailers is clear: what works in one country might not work in another.

"A consumer in the Chilean city of Concepción wants very different products from a consumer in Cartagena in Colombia," said Sandro Solari Donaggio, CEO of Chilean department store giant Falabella, which operates in both those countries, as well as Perú and Argentina.

Fashion is booming in Latin America as never before. Young Latinos are looking for trendy clothes at affordable prices, creating a market for foreign incomers like Sweden's H&M and Japan's Uniqlo. H&M opened its first Latin American store in Chile last year and plans another in Perú soon.

Home improvements are another big growth area. More Latin Americans have spare cash to spend on their houses and gardens.

In some countries, there is a thriving market for luxury goods. In Brazil, up-market malls like JK Iguatemi in São Paulo and Village Mall in Rio de Janeiro have brought Valentino, Miu Miu and Dolce & Gabbana to a new generation of wealthier Latin American shoppers.

BUY IT ONLINE!

The relentless rise of online shopping has been a big factor in the boom and will continue to be so. According to Deloitte, online retail sales in Latin America are growing at 20 percent a year.

The Brazilians are particularly fanatical online shoppers. There are over 90 million internet users in Brazil, and 57 percent of them said they have made purchases online. The Brazilian online retail industry, worth $11 billion in 2012, is forecast to hit $28 billion by 2017.

Walmart, the biggest retailer in the region, said it gets 12 million visitors to its Brazilian website each month.

Here too, there are differences within the region. According to A.T. Kearney, Brazilians now buy 50 percent of their electronic goods and six percent of their clothes online, while in Chile the figures are just 28 percent and one percent respectively. When it comes to food and drink, the trend is reversed. Brazilians buy just three percent online, while in Chile the figure is nine percent. Once again, retailers need to be aware of these differences when entering Latin American markets.

Mother and daughter shopping online at home.

Price comparison websites like Buscapé are attracting more users, as are group-buying sites like Groupon and Peixe Urbano.

Smart phones have changed the way Latin Americans shop. In 2011, Santiago became one of the first cities in the world to install virtual supermarkets on the walls of the subway. With the help of a QR code reader, easily downloaded as an app, you can buy food and drink by pointing your phone at images on the wall while waiting for the train. All being well, your groceries will be on your doorstep by the time you get home.

Innovations like this are transforming the industry. Increasingly, the shopping of the future will be a multi-channel mix of "bricks and clicks." There will still be a demand for traditional brick-and-mortar stores, but customers are demanding alternatives – online shopping, smartphone shopping, telesales and catalog sales.

"'Multi-channel' is the key word in retail at the moment," said Francisco Díaz, a senior consultant at Deloitte in Santiago. "You have to align your different channels, prices and commercial offers for each part of the market. "It's something that's been well developed outside Latin America by the likes of Walmart and Amazon. They have the strategic vision to use the right channel, at the right moment, for the right segment of the market."

BANK AT THE RETAILER

As a customer, once you've selected your consumer goods, how do you pay for them? Here too, Latin America's retailers are coming up with answers.

They are making it easier, for example, for shoppers to pay in instalments, even for small-ticket items like a bag of groceries, and they are using loyalty programs to keep hold of customers.

In the past, Latin American shoppers sought credit from banks to spend in the shops, but they now seek it directly from retailers. In Chile, four of the top five credit card issuers are now retailers, not banks.

"We're the biggest card issuer in Chile, and one of the biggest in the region," said Falabella's Solari. "It's crucial for maintaining our leadership."

Across the region, retailers are developing their own financing arms, either alone or in partnership with banks. Co-branded credit cards and private label credit cards are likely to grow in importance.

"Credit cards now generate a significant proportion of a retailer's net profit," Bowles said. "The money made on either revolving credit or delinquency is quite high. For some retailers, the interest paid on credit cards makes up as much as a quarter or a third of their net profit."

There are still plenty of Latin Americans out there who have yet to enter the formal credit market. In Colombia, for example, a third of the population doesn't have a bank account, but that will change as the middle class expands.

THE FEMALE SHOPPER

The rise of the female shopper is another important phenomenon for retailers. The income gap between Latin American men and women is closing, and women increasingly control their own purse strings.

There is a vibrant market for women's clothing, beauty products, accessories and footwear. Walmart, for example, has given Latin America 'Dream Out Loud', a range of own-label clothing for teenage girls, and 'George', a British brand the company imported from its Asda operation in the United Kingdom. "Both brands provide our customers with the more sophisticated clothing they're looking for now that they've become members of the middle class," said Kevin Gardner, a Walmart spokesman.

While foreign retailers are piling into Latin America, only a handful of Latin American retailers are expanding abroad.

According to Deloitte, Latin American retailers are the least likely to operate internationally. Foreign expansion, then, might be a logical next step for many of them.

Consolidation is also likely to be a key factor in the coming years. "The large established players – the Walmarts, the Carrefours, the Casinos, the Cencosuds – will continue to increase their market share due to their deeper pockets and greater access to credit," Bowles said. LT

Gideon Long reported from Santiago de Chile.v

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