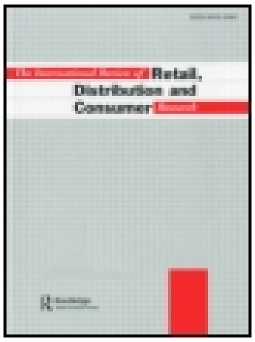

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Latin American retail: where modernity blends with tradition

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Latin America's retail landscape has changed dramatically over the last 20 years. Attracted by deregulation and a sizable and growing market, modern retailers arrived looking for the next El Dorado. But signs of maturity appeared much before expected. Traditional retailers modernized their offer, while keeping their appeal to the emerging consumers. While chain retail has concentrated earlier than expected – and faster by the hand of crisis that are usual in emerging markets –, local chains have developed formats which add modernity to their understanding of their customers' base. By providing better access through convenience and credit to a broader range that even includes affordable design and quality, local chains are showing the way to the growing mass customers that form Latin America's new emerging middle class. And leveraging on this customer understanding, they are redefining concepts like convenience and crossing borders to grab the opportunity of the new emerging consumers. This article covers the evolution of retailing in Latin America over the past two decades, and provides insights on the segment that has brought the most significant growth: emerging consumers.

Keywords: emerging markets; emerging consumers; retail modernization; Latin America

Over the last 20 years, Latin America's retail landscape has experienced a dramatic modernization and increasing competitiveness, showing a strong evolution. But as its middle class is still significantly smaller than in developed markets, international chains find that their formats hardly penetrate the massive lower segments. The 'roaring nineties' provided a perfect setting for modernizing the fast-moving consumer goods retail sector in Latin America. Sound macroeconomic policies, favourable regulations, stabilization after decades of inflation, and favourable trade and investment prospects for emerging markets combined to create suitable conditions for aggressive retail investments on the part of both multinational and local supermarket chains. This combined with rising per capita incomes and a general update of the products supply, helped fuel the penetration of large chain retailers during the early to mid 1990s. The result was signs of maturity, with concentration and the exit of some of the foreign chains earlier than expected, as shown in Figure 1.

Despite the differences among countries, Latin America shares a language and Hispanic origins, as well as a socio-economic and political profile that enables us to

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Figure 1. Arrival and departure of major retail players 1980–2007.

carry out a common analysis of its trends. As shown in Figure 2, the 'belly of the market' is currently the most relevant segment of shoppers for Latin-American retailers, representing anywhere around 60% of the total population of the region, or nearly 320 million consumers. This 'belly of the market' refers to consumers in C and D segments in Mexico, for example, or B, C and D segments in Brazil, with a range of monthly household income of 500 to 2,500 US dollars on average. But most importantly, consumers devote over 70% of their spending to food, as reported by sources like Target Marketing in Brazil.[1] Compared to other regions the 'belly' has the same importance in Latin America as it does in Russia, India or China, and understanding their needs has become critical to retailers.

Given the growth of the emerging middle class, their relevance for retailers comes not only from their current demand for food and groceries but especially from their latent future potential. This potential is clearly signalled by their willingness to use any incremental income on purchasing either more or better food. INEGI's research in Mexico estimated that this consumer segment will represent almost the entire incremental spend in food, beverage and health, beauty and personal care in Mexico over the next 5 years, representing over US$18.5 billion.[2]

Local retailers' innovative responses

Elektra is the leading electronics and appliances chain in Mexico, with 741 stores and annual revenue of US$1.8 billion. With many low-income customers making purchases on credit, defaults are a major concern. When a payment is late, therefore, Elektra lets the customer's neighbours know. It is a smart form of peer pressure that pays off as the customer pays up.

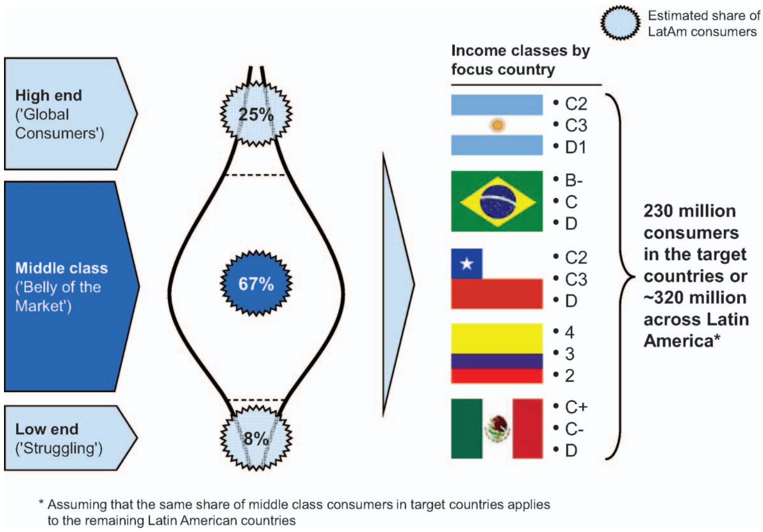


Figure 2. The 'belly of the market' represents the largest consumer group in Latin America. Sources: Target Marketing, SIGMA, Iccom, Indec, Napoleon Colombia, Viewswire.

This is an extreme example of the lengths to which some major companies go as they challenge the traditional dominance of small, local stores in low-income areas. Retailers like Elektra have essentially created hundreds of mom-and-pop stores, with one notable difference: they all share the same corporate parent. It is a model that bears watching for companies that have designs on other emerging markets.

These retailers understand that the best way to draw emerging consumers is not necessarily with rock-bottom prices. By balancing the need for affordability with the latent aspirations of emerging consumers, these companies have set the bar for other retailers in emerging markets. The consumers they target, who represent 50% or more of the population in Latin America, respond enthusiastically to the innovations described below.

Better access to higher-level products or services

Some successful retailers make it their mission to allow emerging consumers to have something they have previously been unable to afford, from televisions to washing machines. Often this involves creative financing for consumers who have little or no credit history; some retailers inspire loyalty by offering consumers a level of sales assistance and services, such as extended warranty and home delivery that they have never received from large chains. Casas Bahia, the largest household-goods retailer in Brazil, has had revenue growth of approximately 16% per year since 1999. It hires sales staff from local communities and trains them to work with customers on buying sensibly and encouraging consumers to stay within their budgets – both reducing the chance of defaults and cutting down on customer frustration.

The company has also developed an online central credit system that delegates a significant amount of responsibility to salespeople: staff are authorized to give up to

R$600 (approximately US$275) in credit to customers who provide a home address and are not blacklisted by the nationwide online Credit Protection Service. Once customers are approved, they can make payments in up to 18 instalments, and will receive further offers of credit after paying off their purchase. Customers must make their payments in person, unless they choose to pay an additional fee, which gives Casas Bahia 18 opportunities to strengthen the relationship before the next big purchase.

Affordable design and quality

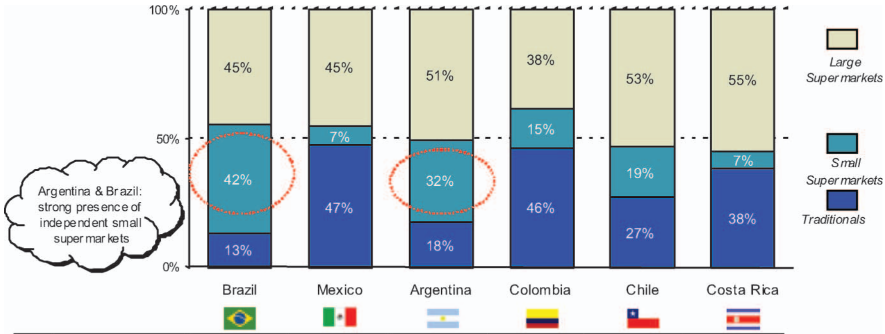
Retailers must often battle the perception held by emerging consumers that if it is a stylish item sold in a trendy store, it is not for them. Casa & Ideas, a Chilean home decor retailer, performs a careful balancing act between affordable and exclusive. Thanks to a dedicated, in-house design staff of 35 people and a network of suppliers in low-cost countries, the company can put out two collections per year of basic items and two to four collections of limited edition items. The idea of a store that specifically wants to provide them with trendy items has generated a lot of loyalty among emerging consumers, with 70% of Casa & Ideas' sales from frequent shoppers.

Assortment and location

Many emerging consumers struggle with the choice between conveniently located small stores with limited selections and chain stores with large assortments that are difficult to reach. Magazine Luiza, a Brazilian retailer of basic home goods, has developed an unusual solution in 52 of its small local stores. It makes sure customers can get as many goods as possible by not stocking any inventory; instead, it fulfils orders via the Internet. Unlike other companies that have failed in that endeavour, Magazine Luiza uses sales clerks to educate consumers on the concept, rather than employing a self-service model. The stores retain a friendly, local flavour by offering an hour of free Internet access to every customer, with an additional hour for bringing in a new customer. The company also partners with local charities to provide information sessions on topics from literacy to healthy living to childcare.

Regarding their shopping habits, anywhere from approximately 40% to 60% of the retail sales of consumer packaged goods such as food, beverages, personal care, and cleaning products are concentrated in supermarkets, with penetration varying by country, as can be observed in Figure 3.

As in other regions, the growth of larger chains took place at the expense of small-scale retailers. Many believed that the same pattern of other regions would be repeated: smaller players would be swept away by the tide of consolidation, and the advent of hypermarkets and supercentres. However, shifts of the same magnitude have yet to occur. Small retailers successfully held their ground in front of the international chains, and lately these have started to adapt their formats and create new ones to attract the vast lower segments. But the 1990s also brought changes in economic policy that translated into the growth of a new middle class. Aware of this, chain retailers are starting to understand the different needs of these segments and – led by some innovative local chains –, are learning to attract the mass market into their stores.



# of Stores	Brazil	Mexico	Argentina	Colombia	Chile	Costa Rica
Organized Trade	2k	1.1k	1.3k	600	600	300
Small Independent Supermarket	57k	7.8k	12k	500	400	2k
Traditional	285k	510k	98k	160k	60k	10k

Figure 3. Retail consumer packaged goods industry structure by country.
Note: Large Supermarkets defined as follows: Brazil – 10 checkouts or more; Argentina – 5 checkouts or more; Colombia – store size of 1,000 m^2 or more; Chile – any chain supermarket.
Source: Booz Allen: Creating Value for Emerging Consumers. The Coca-Cola Retailing Research Council Project.

A dramatic change in just one globalizing decade

Supermarkets are now the dominant players in most of Latin America, having moved from a rough-estimate population-weighted average of 10 to 20% in 1990 to 50 to 60% of the retail sector in 2000 (Reardon and Berdegué 2002).

Several major factors explain the rapid overall growth of supermarkets:

- Urbanization: Chile's urban population increased from 75% to 86% between 1970 and 2001.
- Increasing entry of women into the workforce: This in turn also increased the opportunity cost of their time, favouring the shift towards both shopping convenience and processed foods to save cooking time. (Only in Chile, there was a 2.8% annual increase between 1989 and 2000.)
- Real increase of mean per capita income during the 1990s.

At the same time, supermarkets fell under the pressure of convenience stores and hard discount retailers. Starting in the early 2000s, consumers started to shift towards convenience shopping, reflected in a rapid loss of hypermarkets' share. With their income no longer threatened by inflation, consumers did not need to rush to hypermarkets any longer to preserve their buying power by shopping at one single place, and could spread their purchases over a longer period. This results in more frequent shopping trips, increasing the popularity of convenience stores often local, where they meet with the new emerging middle class. The challenge to chain retailers is that the convenience sector remains largely made up of independents, which supported by wholesalers, modernize their stores to self-service. Meanwhile gaining access to this convenience consumer is becoming a priority for major retail players (Accenture 2008), who are experimenting with different formats.

Together with the rising number of working women and men living alone, convenience stores started thriving during this last decade. Both groups were often prepared to pay premium prices for convenience foods.[3] Their attractiveness in

Brazil has been fuelled by two main factors: an increase in consumers' income and Brazil's famous traffic jams in its major cities which have stimulated the convenience market, as people choose to shop closer to their homes and offices.

The growth of supermarkets

By the late 1990s, chain supermarkets had become the dominant distribution channel in Brazil, as shown in Table 1. Some of factors fuelling this growth were:

- Sunday openings became the norm and supermarkets hours were longer – in some cases up to 24 hours.
- Rapid expansion of retail space by major groups.
- Supermarkets expanded their assortments and entered a strong promotions war. Sao Paulo became the most promoted city in the region.

Although the number of traditional retailers was not large, Brazilian self-service was extraordinarily fragmented and until 1997 was consolidating only slowly. However, 1999 showed a dramatic increase in the process of consolidation, showed in Table 2.

Table 1. Evolution of formats – leading players – by country.

	1980s	1990s	Early 2000[4]	2005–2010
Supermarkets (SM) and Hypermarkets (HM)				
Mexico		757[5]	20 (Carrefour) 167 (Wal-Mart) 5 (Auchan)	
Argentina		354[6]	237 (Ahold) 152 (Carrefour) 11 (Wal-Mart) 13 (Casino) 28 (Casino) 3 (Auchan)	
Brazil	12 (Carrefour)	589[7]	142 (Ahold) 201 (Carrefour) 20 (Wal-Mart) 269 (Casino) 164 (Sonae)	182 (Carrefour) 23 (Wal-Mart) 118 (Bompreco)
		154[8]	Chile 70 (Ahold) 4 (Carrefour)	
Convenience stores				
Mexico			7,000	13,000
Argentina	50,000		35,000[9]	
Brazil		1,200		7,000[10]; 2 (WM)
Chile			100,000	
Hard discounts				
Mexico			111 (Wal-Mart)	
Argentina		30 (Carrefour)	237 (Carrefour) 3 (Casino)	246
Brazil			33 (Carrefour) 2 (Wal-Mart) 150 (Casino)	208 (Carrefour)[11]; 148 (WM Sonae)

The two leading chains, Carrefour and Pão de Açucar, made major acquisitions in 1998. Meanwhile, Grupo Sonae acquired three of the top 20 chains and a smaller one, thus forming a group with consolidated sales of US$1.3 billion. Royal Ahold bought a 50% share of Bompreco in December 1996, and a few months later, Bompreco acquired SuperMar, a 50-store supermarket business centred in the state of Bahía. A similar wave of mergers and acquisitions could be witnessed throughout the region at the same time (see Table 2).

In 2001, Ahold also took a 50% equity stake in Velox, the group that controls Disco in Argentina and Chile's Santa Isabel. But in 2004 it sold the 118-store Bompreco to Wal-Mart, who by late 2005 continued its foreign expansion by acquiring Sonae from its Portuguese owners. Driven by job growth in urban areas Brazil's supermarket industry was expanding dramatically. Wal-Mart opened its first supercentre in the nation's capital district of Brasilia.

Mexico's grocery retailing has recently become fairly concentrated, with the four leading players accounting for more than 60% of all supermarket sales. Though currently undergoing a process of modernization and consolidation, the sector as a whole has experienced solid growth rates since 2006, and offers considerable potential for further growth. Consequently retailers continue to invest in the Mexican market, establishing new outlets and modernizing and expanding existing ones. A key focus for the coming years will be the expansion into suburban and rural areas which are so far characterized by low penetration of modern grocery retail. Convenience stores are the fastest-growing store format and are increasingly forcing small, traditional outlets out of the market. With the overall number of petrol stations increasing, the number of convenience stores can be expected to significantly increase over the coming years.

During the 1990s, Argentina's retail trade underwent a similar transformation, driven by deregulation, price stability, the opening of the economy and the entry of foreign companies bringing new technologies and greater financial muscle. Some of the large chains already operating in Argentina, such as Carrefour (France), Jumbo (Chile), Tia and Coto (Argentina), expanded. Regional domestic chains, such as Vea (Mendoza), Toledo (Mar del Plata), Libertad and Supermercados Americanos and La Anónima (Patagonia), also grew. And towards the end of the 1990s new companies entered the market – these were Wal-Mart, Auchan, Ahold (through a stake in the local Disco chain) and Casino (by acquiring 75% of Libertad). It was

Table 2. Major retail acquisitions in Latin America, 1996–1998.

Date	Buyer	Target
December 1996	Royal Ahold (Netherlands)	Bompreço (Brazil)
December 1996	Exxel Group (US/Argentina)	Norte (Argentina)
Apr 1997	Bompreco/Ahold (Brazil/Netherlands)	Supermar (Brazil)
May 1997	Velox/Disco (Argentina)	Santa Isabel (Chile)
Sep 1997	Velox/Disco (Argentina)	VEA (Argentina)
December 1997	Carrefour (France)	Eldorado (Brazil)
December 1997	Jerónimo Martins (Portugal)	Sé Supermercados (Brazil)
January 1998	Royal Ahold (Netherlands)	Velox/Disco (Argentina)
January 1998	Exxel (US/Argentina)	Musimundo (Argentina)
February 1998	Casino (France)	Libertad (Argentina)

also during this period that hard discount chains emerged, such as Eki and Dia Discount.

Since the onset of the recession in 1999, and particularly since the 2002 economic and political crisis, modern trade suffered a significant loss of share. Cash-strapped customers turned to the old traditional shops and corner stores to avoid the frustration and 'temptations' of modern trade, shifting from large weekly shopping trips to more frequent, small-scale shops. Informal markets took a greater share of grocery expenditure.

Adding new services and crossing borders

As consumer credit continues to expand, Mexican consumers are expected to continue to increase their purchases of goods, especially durables. Retail financial credit is working to reach more consumers, especially from low-income households, through more affordable plans. Retailers will continue to offer credit to support brand loyalty and secure sales through their outlets. Recently, Wal-Mart de México received approval to start the operation of its own bank. However, it is not the first retailer to offer banking services, as Elektra's Banco Azteca has been doing so for several years. It is likely that other retailers will join Wal-Mart, thus widening the reach of retailing to a larger base of consumers. Similarly, Fallabella dominates the Chilean credit card with its CMR card, that allows shopping at other retailers apart from group of Sodimac DIY and Totus food stores.

The group has solidly expanded its formats into Colombia, Argentina and Peru, though in these new markets its credit card still applies only to its stores. Similarly, Elektra has opened stores and branches of Banco Azteca in Argentina, Peru, El Salvador, Honduras and Guatemala, and is planning to enter the challenging but appealing Brazilian market.

Chilean group Cencosud, which operates shopping malls, hypermarkets and DIY formats, has had its major operations in Argentina since the late 1980s, and has more recently entered the Colombian market through a rather hostile acquisition of a minor share of local leading group Exito.

As usual, not all these ventures have happy endings, Chilean drugstore chains (such as Benavidez) have entered the Mexican market, and Brazil (with FASA), with mixed results, but the latest cross-border moves have been led by regional companies, based on formats that have proved successful in their original markets. Even the latest Wal-Mart openings in Argentina follow the Mexican Bodega Aurrera format, so one would not be surprised to see more of these regional cross-border moves.

The surge of shopping malls

Mall development is one of the success stories of the 1990s, offering consumers secure, air conditioned environments in which to meet, eat and shop. Malls doubled their revenues in Brazil between 1993 and 1997 and in 2001 accounted for 17% of all retail sales, according to Abrasce, an industry association.

Alliances between developers and retailers have become increasingly important. Hypermarket players found that setting stores in shopping centres was a way of isolating them from some of the wild price competition that afflicts free-standing roadside stores. And their stores are first-choice anchor tenants, alternative or complementary to department stores. However this trend may change shopping habits, gradually emptying downtown streets. But while this trend is still not clear Mappin – a Brazilian department store, decided that its future lay in compact stores in shopping centres rather than prestige stores in upscale locations.

At the same time, while malls are courting customers through differentiation, it is apparent that the sector may be expanding too fast, and there is a growing concern that some of the new malls run the risk of becoming white elephants. Emphasizing specialization and adding entertainment features seems to be the chosen way to avoid this, with some ambitious examples such as Tren de la Costa, a tourist train linking several malls in the north of Buenos Aires that has built a full amusement park and a casino at the end of its line.

E-commerce rising

In 2005 online sales in Latin America passed US$4.3 billion, showing significant annual growth especially in some countries like Venezuela (185%), Mexico (104%), Chile (100%) and Brazil (43%). Internet penetration is still lagging behind other more developed regions, and electronic payment needs further expansion, but technology-friendly young users are maturing and are currently the highest Internet spenders, though still leaning more to social networks than shopping. The region's broadband expansion ranks third in the world.

Compared to the 74% Internet penetration in the USA, the region still has a long way to go, but its current 30% has significantly grown from the 6.67% in 2003,[12] with Argentina and Chile topping 50% and Brazil reaching 34%.[13]

According to a study published by the AMIPCI (Mexican Internet Association), the number of Mexicans using the Internet in 2005 increased to over 17 million. An additional positive factor is that the widening of consumer credit of 2005 and 2006 allowed Mexicans to obtain credit cards more easily, enabling them into e-commerce. Large store-based retailers, such as El Puerto de Liverpool, El Palacio de Hierro, Grupo Sanborns, Wal-Mart de México and Organización Soriana, have invested in the development of consumer-friendly Internet portals where consumers can make their purchases.

But unless consumers know exactly what they are looking for, they are still more likely to visit the shops. Most Mexicans like to see the merchandise in person before purchasing it.

One exception is MercadoLibre, where many Mexicans like to post goods and services for sale. According to company sources, MercadoLibre is one of the top five most visited Internet sites in Mexico, and it offers its services in nine countries, including all the major ones, and in the US through its links to eBay.

Out of the 850 million users, there are 62 million in Latin America, and as the penetration of computers is expected to increase over the next years, more Latin Americans are expected to purchase online in the next years.

The domain of convenience stores

Today more than ever, Mexicans are being exposed to many new shopping alternatives. Thus, retailers are developing new strategies to attract consumers into their stores. One notable trend is the emergence of 'customization', understanding and adapting to the consumption patterns and shopping needs of local consumers.

Whilst, for example, lower income consumers seek the best prices for rice and beans, affluent consumers look for the best basmati rice to cook an Asian-influenced meal. Another aspect of customization comes from sizes and packaging of goods: small packages of two or even one roll of toilet paper prevail in small independent stores, while packages of four toilet paper rolls are standard at most supermarkets. Thus, retailers and wholesalers work together with suppliers to secure the appropriate packaging to be offered at different outlets.

As the retail industry progresses, Mexicans become more shopping savvy and competition strengthens, retailers are anticipated to continue developing the shopping experience and implementing consumer segmentation. Retailers are likely to introduce new formats to improve the shopping experience, not only for affluent consumers but also for lower income consumers. This means that local flavour and a good price could become drivers of sales at discounters, where most lower income consumers shop.

Convenience stores in Latin America offer items such as candy, ice-cream, soft drinks, lottery tickets, newspapers and magazines, along with a selection of processed food and perhaps some groceries. They are often located alongside busy roads, in densely-populated neighbourhoods, at gas/petrol stations or near railway stations or other transportation hubs. Depending on local regulations, most convenience stores have longer shopping hours, some being open 24 hours.

Some traditional retailers are taking an increasing interest in this growing format, which was mostly dominated by either fuel stations or the traditional neighbourhood bodega or minimarket. In Brazil, supermarket giants like Carrefour and Grupo Pão de Açúcar have entered this segment. The former runs 100 Carrefour Express stores, with 38 more scheduled to open during 2008. Grupo Pão de Açúcar launched Extra Perto, its convenience store chain in 2007, and retail group Lojas Americanas runs a convenience store chain under Americanas Express.

Without doubt Mexico provides the greatest story, where the number of convenience stores has more than doubled during the past seven years, according to A.C. Nielsen Mexico. From 7,000 stores in 1999 it grew to 13,000 in 2006. International players such as 7-Eleven and Canadian Couche-Tard's Circle K Stores compete in Mexico, but the lion's share belongs to Monterrey-based Oxxo, Latin America's biggest convenience store chain. With 6,500 stores it is considerably larger than 7-Eleven's 800 and Extra's 655 stores. And according to an Oxxo executive[14]: 'The growth of convenience stores throughout Mexico will continue, thanks to factors like changes in family roles, less time to go shopping and [the] types of products and services these stores offer'.

As in other regions, small trade is also protected by regulations. In Argentina, laws limited retail development inside towns, forcing neighbourhood supermarket chains to expand by acquiring small chains. Similarly in Brazil, Grupo Pão de Açucar has gobbled up numerous small chains in the downtowns of São Paulo and Rio de Janeiro. Here, a law was designed to protect small traders by limiting the development of complexes with a total area of more than 2,500 sq. m., restricting growth to all but convenience stores and small supermarkets.

A similar picture can be obtained from Hard-Discount stores. Some leading players as Pão de Açucar and Carrefour have tried out this format, with Carrefour's Dia% running 67 stores in Brazil and 246 in Argentina.[15] Wal-Mart Mexico has found a strong value proposition in its 551 Bodega Aurrera – a 2,500 sq. m. trimmed version of its standard stores, heavily stocked with low priced merchandise –, and in view of its appeal to the lower-income segments, is rolling it out in the region under different names, such as Chango Mas in Argentina.

Following the European standard, Hard-Discount stores are self-service outlets with a limited assortment, varying degree of private label and a small range of fresh produce. Located in residential areas, they seek to attract consumers by offering very low prices. To offset these lower prices, expenses are usually kept down by minimizing free customer services, maximizing the use of self-service and inexpensive decorations and displays. These stores may include a mix of hard goods (for example, refrigerators, televisions), soft goods (for example, apparel) and other general merchandise.

The opportunity of emerging consumers

Emerging consumer segments in Latin America are a significant business opportunity but the chain retailers' business model require adjustments or even realignment in order to properly address these segments' needs.

Given that in many countries growth has not translated equally into benefits for all members of the population, highly dualistic social structures still pervade the region. Given the current global crisis, prospects for most Latin American economies are for zero to low single digit growth, so current social structures are unlikely to change in the near term, making emerging consumer segments even more important to retailers and manufacturers of fast moving consumer goods.

Emerging consumers in Latin America represent roughly 50% to 60% of the population and approximately 30% to 40% of the purchasing power, and this segment in aggregate spends a significant amount on food, beverages, personal care and cleaning products; individually, low-income households spend a much higher percentage of income on consumer goods. The counter-intuitive result shown in Figure 4 puts the bulk of the market at its 'lower belly', rather than at the top.

Despite significant barriers, these consumers are still drawn to large supermarkets, creating a potential opportunity for large-scale retailers to serve these groups better as customers. However, their needs are largely served by small-scale retailers – and quite well at that. In comparison, large supermarket chains fall short in key areas in the minds of these consumers.

Often they are perceived of as 'stocking' places or as too 'tempting' – and the product assortment is increasingly at odds with consumers' economic situation: large sizes, large ticket items, promotions that lead to buying 'too much'. Relatively longer distances are required to travel to them, which requires investing time and money in transportation. Quality is perceived to be low in perishable categories, and shelf prices are seen as high (even though the perception is not in line with reality in most cases). Further, emerging consumers report 'cold' treatment by staff or other customers while shopping in large chain stores – when in fact they value personal relationships and emotional proximity when shopping. In addition, while the opportunity is large, the shopping habits of emerging consumers imply challenging economics for retailers. This group's shopping behaviour is characterized by small ticket sizes, comprised of lower-margin items; exercise of self-restraint and low purchase conversion; and focus on traffic building promotions which could mean low return on investment for promotional spending.

Therefore, simply extending the current value proposition and formats of large chains to address physical proximity issues is likely to affect financial performance

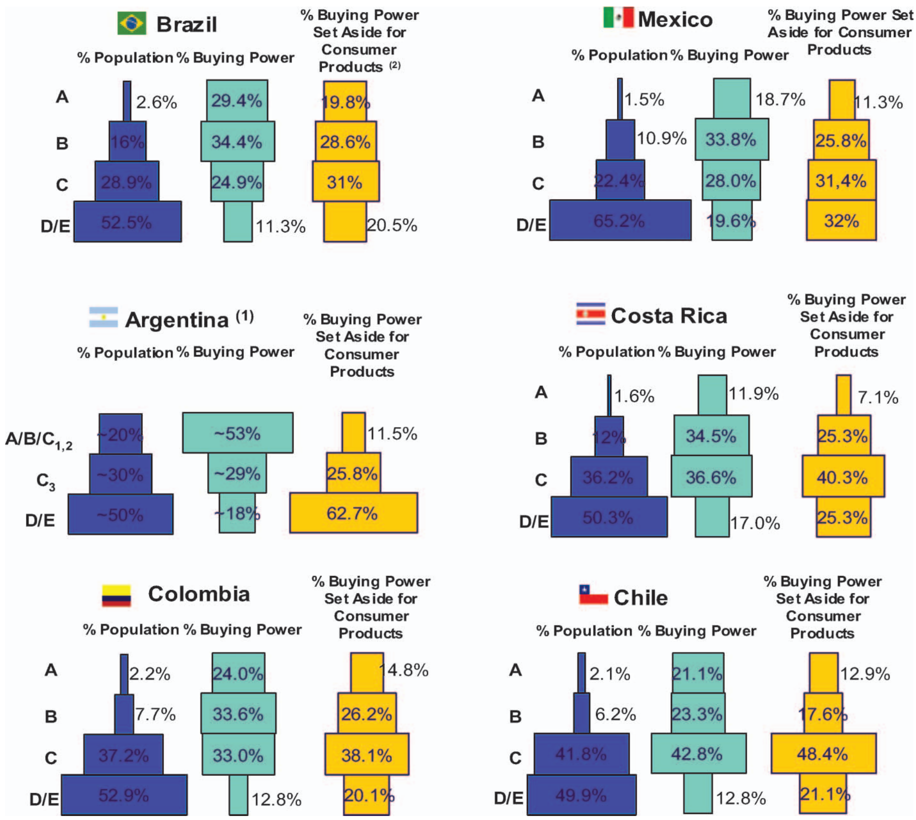


Figure 4. Consumption and socio-economic strata in Latin America: % population; % purchasing power; % consumption of basic food products.
Note: (1) % of household income; A/B/C_1 & C_2 percentages reported together for 11/2002. (2) % buying power set aside for Consumer Products: Amount of the buying power addressed to Consumer Product.
Sources: Strategy Research Corporation; UN Demographic yearbook, UNCESCO statistical yearbook; CCR Latin Panel; Sigma.

negatively. Rather than waiting for a 'trickle down' effect of rising overall incomes that is slow to appear, retailers have chosen to focus on the needs of the emerging consumers, to define their response to the emerging consumer opportunity.

Insights into the 'belly of the market'

Three themes appear as being the most relevant across the region (McKinsey & Co 2008):

(1) *The shopping experience*: Having a significant shopping experience is relevant to shoppers because going shopping is more to them than simply purchasing products. Given budget restrictions, food shopping is transformed into a key entertainment option for the whole family. Consumers thus seek a more social and fulfilling experience, demand more services and options (for example, food court, resting areas) when they go to a store and want a pleasant environment to enjoy what they are doing.

(2) *Dignity*: These shoppers realize the difficult position they are in, based on their limited resources and for that reason they do not need the stores they visit to reinforce this fact. They do not want to be made feel as being poor, while on the other hand they want to be valued and respected as a customer and a contributor to their family, and do not want to be left out of the experiences available to people that are better off. Another perspective points out to the fact that 'belly' consumers spend most of their working time serving other people; while shopping this relationship is flipped and shoppers are empowered, having the store/product choice in their hands. So respect and service offers 'dignify' consumers in that sense.

(3) *Trust*: A combination of consumer budget limitations, intense promotional levels and execution flaws has generated a strong sense of mistrust towards retailers. Shoppers do not want to feel scammed in any way (for example, finding different prices at the shelf and check-out, promotions of products about to expire), they want to have control over what they buy (for example, tasting and smelling fresh products, avoidance of pre-packaged products). However, trust does not relate to a single factor or attribute, but to the whole value proposition.

Segmenting the emerging consumer

In order to translate these findings into an actionable agenda, retailers have concentrated on how these preferences and needs may vary among the different shopping formats.

Shopping towards leisure, acceptance and preference of large formats, value of convenience, orientation towards quality and branded products, price consciousness and scepticism/mistrust are the factors that statistically most strongly differentiate consumers. An attitudinal segmentation process uncovered five relevant and differentiated segments within the belly of the market, each one with more emphasis towards some of the relevant attitudes identified in the region, shown in Figure 5.

(1) Financially strapped sceptics – lower end consumers, do not trust retailers in terms of safety and services.
(2) Functional shoppers – shoppers who want to spend as little time as possible shopping.
(3) Brand oriented convenience shoppers – willing to pay more for convenience and reliable brands.
(4) Brand oriented shopping lovers – love shopping; look for high quality brands.
(5) Experience seeking social shoppers – look for a fulfilling shopping experience with the whole family.

The presence of these groups varies across the region and within each country, reflecting to some extent the local culture, evolution of retail formats and orientation towards shopping. In that sense, Chile and Argentina have a more functional orientation towards shopping while Brazil and Colombia are more focused on experience. Mexico lies in the middle in terms of function vs. experience but is clearly more skewed towards price sensitivity and scepticism.

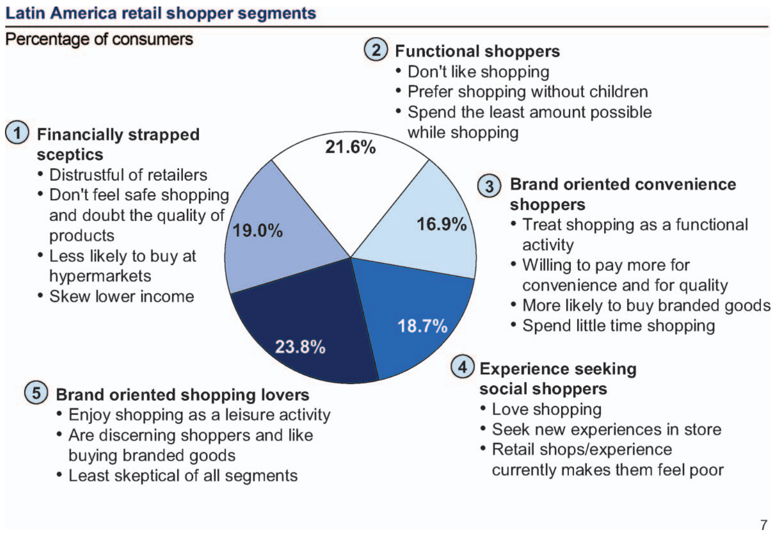


Figure 5. Latin America retail shopper segments.
Source: CCRRC shopper interviews (2007/08), Inside the Minds and Pockets of Emerging Consumers. Study by McKinsey & Co. for The Coca Cola Retailing Research Council, 2008.

Each of these segments cares differently about the key factors that define them (see Figure 6), and retailers should use different levers to target them effectively. The retail pentagon – store, product, value, people and communications – is a powerful tool to help shaping specific strategies for each segment, for example: brand oriented convenience shoppers demonstrate a clear preference for two levers – merchandise authority and convenience. So retailers seeking to address this segment need to shape their formats around 1) an assortment that always carries established brands; and 2) access. If they succeed in doing so, consumers will be willing to pay more to have that trade-off.

The same rationale can be applied to each of the five segments, depending on the current format portfolio and the corporate medium-term strategy. Nevertheless, some key beliefs of the retail pentagon – store, product, value, people and communications – cannot be ignored when going through this process:

(1) Differentiation: To be successful a retailer needs to be famous for something.
(2) The value proposition can be truly distinctive on only one or two dimensions.
(3) Whatever the proposition, the role of price must be clear.
(4) Industry baseline standard must be achieved on all dimensions.

Small-scale retailers in Latin America markets have proved able to cater to these needs, despite their obvious disadvantages. They have demonstrated remarkable resilience and previous gains against these players are tapering off or even reversing slightly in some cases. In Argentina and Brazil, small-scale retailers have been particularly successfully in staving off the large chains. Many smaller players like Rio's Zonasul developed capabilities and responded to changing consumer preferences by converting over-the-counter formats into self-service stores. New small-scale formats such as bulk or door-to-door sales are emerging – or

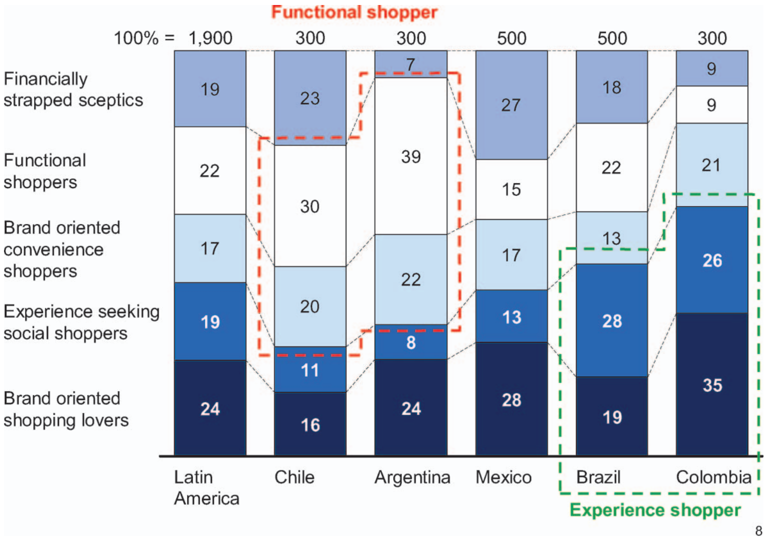


Figure 6. Distribution of segments across countries.
Source: CCRRC shopper interviews (2007/08), Inside the Minds and Pockets of Emerging Consumers. Study by McKinsey & Co. for The Coca Cola Retailing Research Council, 2008.

reappearing – in some countries. Times of economic crisis have also helped traditional stores and small self-service shops to regain share (as in Argentina, where after the 2001 economic crisis, small scale retailers increased share of total food sales by 2% during the beginning of 2003) (Booz Allen Hamilton 2003).

Initially chain retailers did not make emerging consumers their primary focus. The growth of large supermarkets was successfully targeted at middle- and high-income consumers, while lower-income consumers still purchased at the traditional retail trade. However, small-scale retailers are not only attracting 'emerging' consumers, but also customers from upper levels – particularly in the 'fresh' categories that make up an important part of the diet. At weekends at Minka, a lower-end mall in the port of Callao, Lima, Peru, its normal customers blend with high-end ones looking for fresh produce. Small players are holding their ground, and they continue to supply a significant portion of the consumer packaged goods market in Latin America, but large chains are starting to show success in the lower segments. Wal-Mart Mexico's Bodega Aurrera and their acquired chain La Fragua in Central America has shown the way inside that segment, and the format is leading its introduction into other countries with adapted formats like Chango Mas in Argentina.

Beating the 'imperfections' of Latin American Markets

The market presence that small-scale retailers maintain is often attributed to market dysfunction and other presumptions about emerging consumers. From the demand side, lower-income consumers are often seen as poor, with little money to spend, and as unsophisticated buyers who shop in dirty, unpleasant stores – sometimes trapped into credit relationships that are the modern-day equivalent of debt peonage. Another presumption is that their lower incomes drive emerging consumers to whatever is 'low price' or 'low cost', 'value' or 'second tier' brands, discount retail formats, and so on. Yet another presumption is that emerging consumers are 'junior' versions of middle- and high-income groups – and that they should naturally flock to the modern infrastructure, shopping experience and value that large supermarkets provide once incomes rise or they are able to afford a car.

On the supply side, some would conclude that small-scale retailers' success must be due to market inefficiencies, since they offer a fundamentally inferior value proposition. They stock fewer products to choose from, and the stores themselves when perceived through the lens of the 'modern' retailer are seen as dirty, cluttered, and generally less attractive. Additionally, conventional wisdom holds that small-scale retailers rely excessively on informality (for example, labour, social, value added tax (VAT), and sales tax evasion) to artificially prop up a generally unproductive business model. Shopkeepers and staff appear to sit idle for hours – or work only during the mornings in the case of some open air formats – implying low labour productivity.

In summary, research across Latin America countries destroys six common myths about emerging consumers. Although 'poor' relative to other higher SocioEconomic Strata (SES), these consumers spend a great deal of money on consumer products and constitute a significant portion of these markets. When shopping, they follow a quite rational and sophisticated behaviour as they seek to reconcile preferences with their economic reality. They have a distinct set of product and format needs – which does not necessarily include whatever is lowest cost, credit, or responding to shelf prices. The personal relationships and sense of community they seek is a strong incentive to shop in small-scale retail formats. Furthermore, differences within emerging consumers imply that retailers need a differentiated proposition to address the needs of this group.

Conclusion

Latin America's retail has experienced a dramatic evolution in little more than a decade. A rising middle class of emerging consumers still favour convenience shopping, giving room to the survival of small retailers that have understood how to evolve with their customers' needs.

A range of modern formats has emerged, both by the hand of foreign companies and local players. The result is a mix of modern formats resembling any developed market, standing beside local formulas designed by local retailers, better suited to attract the growing middle class of emerging consumers. Maturity has reached foreign chains long before expected, and local formats have shown the way into further modernization, but with a 'Latin' flavour. Inspired by this growth, regional players have recently started to cross borders with these innovative formats, giving Latin America's retail landscape a unique flavour.

Notes

1. Consumption potential based on Brazilian data from Target Marketing (2002); according to the source B, C and D shoppers represent 68% of the consumption of food and beverages outside the household.
2. Incremental consumption in Mexico based on INEGI's Encuesta del Ingreso y Gastos de los Hogares and expected gross domestic (GDP) growth for the 2008–2012 period.
3. The Economist Intelligence Unit Limited 1998.
4. Coleman (2003).

5. '– do short form here and transfer main source to References.
6. Francis Macdermot 1999.
7. Ibid.
8. Ibid.
9. Stanton (2001).
10. Abras: Associação Brasileira de Supermercados. In late 2007, most of them were located at gas stations. 1,000 convenience stores were estimated to be open in 2008 (the source for this is Claudio Correa, convenience store analyst at Rio de Janeiro-based Fecombustiveis, Brazil's Fuel Station Trade Group).
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12. ITU, 2004. http://www.exitoexporter.com/stats2.htm
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