

RETAIL IN LATIN AMERICA: TRENDS, CHALLENGES AND OPPORTUNITIES

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Abstract

This study summarizes recent trends in retail in Brazil, Mexico, Argentina, Colombia, Chile and Peru. The paper begins by reviewing recent economic indicators and continues by analyzing the specific retail trends. First, we look at trends related to the shopping experience, including store size, store format, location, product mix, private labels, and consumer preferences and some online trends. This is followed by a description and analysis of key consumer trends that can impact the sector in the near future. We then look at the development of alternative strategies in the key markets and look specifically at the issue of financial retail. Finally, we close with the identification of opportunities with regards to service, quality, luxury goods, and female consumers.

Keywords: Retail; Latin America; consumer trends; consumer credit; shopping experience.

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1. Executive Summary

2. Emerging Markets

a. World Economic Profile and Perspectives for Emerging Markets

(Global Economic Prospects, World Bank, 2010)

(World Bank Data Center, WBDC)

(Income and Expenditure, Euromonitor, 2011)

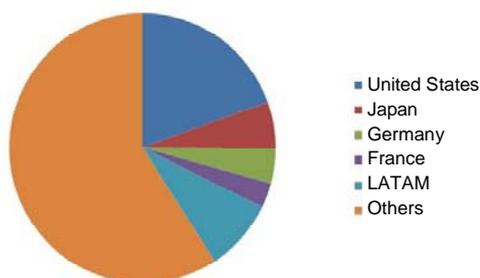
Most developing countries were not directly involved in the risky behaviors that precipitated the financial crisis; nonetheless, economic activity in virtually all countries was sharply affected. Domestic demand in developing countries was particularly affected by the sharp slowdown in fixed investment growth, which fell from 13.4% in 2007 to 8.5% in 2008 and to an estimated 1.3% in 2009. Prospects for developing countries are for a relatively robust recovery in 2010, with growth of 5.2% in aggregate. Output should strengthen further in 2011, but only modestly, rising to 5.8% for the developing aggregate as a whole. The Latin America and Caribbean region has been able to weather the crisis much better than earlier ones. Output in the region is expected to continue strengthening into 2010. Industrial production is currently growing at a 22.2% annualized rate in Brazil and the contraction in Mexico is beginning to moderate.

In terms of total GDP, the LATAM region represents 6.8% of the world GDP – with Brazil and Mexico representing two thirds of total LATAM GDP – which could be compared in size with countries such as Germany (5.8%) or France (4.6%), due to the region's large population and natural resources. However, the GDP per capita is far below developed regions such as EU or North America, with a value close to the world average (Figure 2.1).

Figure 2.1

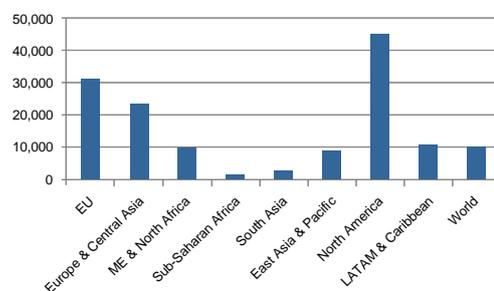
World Economic Indicators

World GDP PPP Distribution 2009



Source: World Bank Data Center, 2011.

World GDP per Capita PPP USD\$ 2009

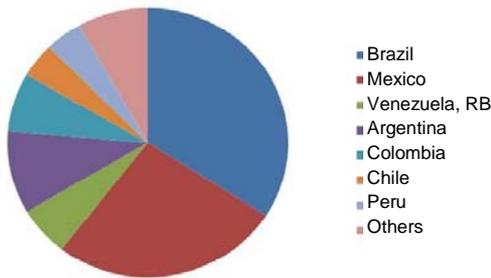


In total numbers, the Brazilian and Mexican economies represent 64% of the LATAM region's GDP. This is directly related to these countries' large population (Figure 2.2). Both countries also have a large and similar GDP per capita, just above Chile and Venezuela. Other countries in the regions show lower levels for this indicator.

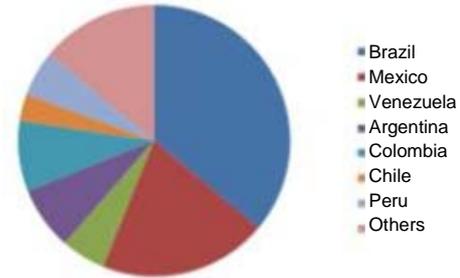
Figure 2.2

LATAM Economic Indicators

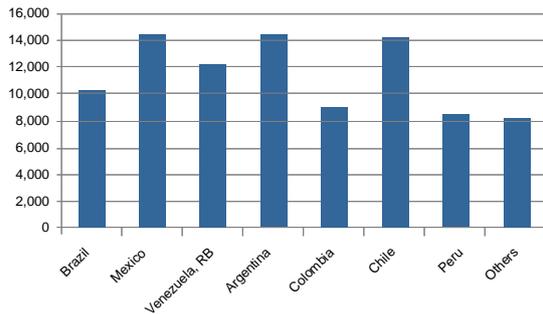
LATAM GDP PPP Distribution 2009



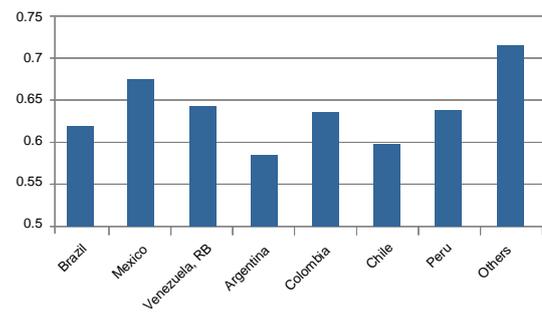
LATAM Population 2009



LATAM GDP per Capita PPP USD\$ 2009



LATAM Household Consump. Expendit. as% of GDP 2009



Source: World Bank Data Center, 2011.

b. Consumer Profile of Emerging Markets – LATAM

(Creando Valor para los Consumidores Emergentes en Retailing, The Coca Cola Retailing Research Council Latin America, Booz Allen Hamilton, 2003)

(Income and Expenditure, Euromonitor International, 2011)

(Retailing: Future Scenarios (Part 1). How Might Changing Market Environments Affect Growth In Emerging Regions?, Euromonitor, 2011)

(Winning in emerging market cities, BCG, 2010)

(Breaking the myths on emerging consumers in retailing, D'Andrea, 2006)

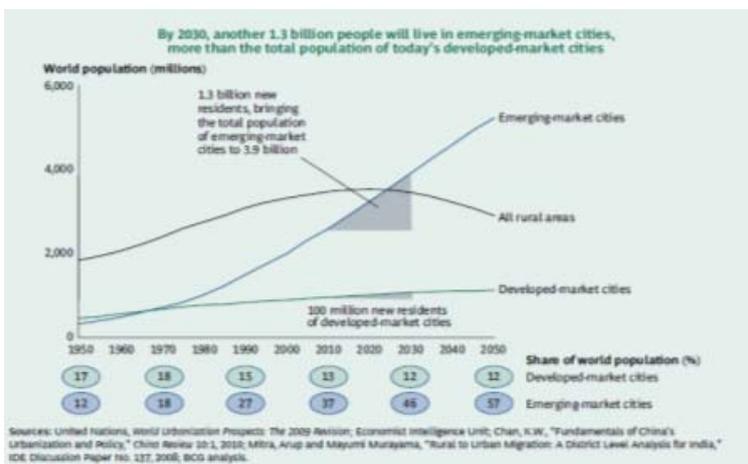
One factor that is set to affect retailing across all regions is the development of the workforce and changing demographic profiles. Here the global picture is slightly different. Although Asia Pacific is again dominant because of the sheer number of inhabitants currently of working age, it is Latin America and the Middle East and Africa that have the strongest prospects for longer-

term growth because their populations include a higher proportion of younger inhabitants set to join the labor force.

One third of the world's population – 2.6 billion people – live in cities that are located in emerging markets. By 2030, the numbers of emerging-market urban dwellers will increase by another 1.3 billion. In contrast, cities in developed markets will add only 100 million new residents in the next 20 years. This massive growth will fundamentally change the competitive landscape in many ways. Consumer demand will rapidly increase as the middle class in these markets expands, new infrastructure will be required as cities grow, and those companies that are best positioned to capture the opportunity will tap into larger profit pools and grow faster.

Figure 2.3

Rapid Growth will Further Boost the Population of Emerging Market Cities



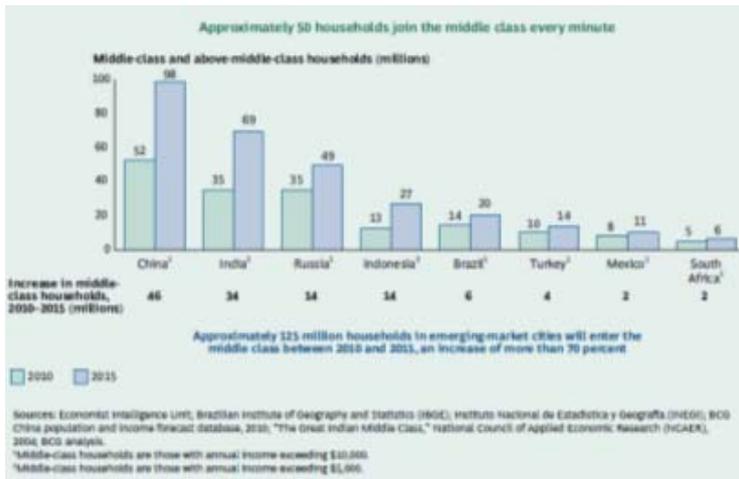
Source: Winning in emerging market cities, BCG, 2010.

Not only is the emerging-market population increasing, but growing numbers of residents are seeing their incomes rise markedly. By 2015, 125 million households representing 460 million residents of cities in Brazil, China, India, Indonesia, Mexico, Russia, South Africa and Turkey will have graduated to the middle class. This change in income levels is currently reaching an inflection point, with many products previously unattainable by average residents starting to become necessities. Once households enter the middle class, consumption categories such as luxury goods and home décor grow rapidly.

Latin America is recognized as a "region", but shows striking socioeconomic differences. The general measures of economic success such as GDP per capita differ significantly between countries, and these differences may vary dramatically even within each country. Take the example of Brazil; while average household expenditure in the more prosperous Southeast reached close to US\$28,500, in the Northeast it is barely close to US\$15,000 on average. Historically, the region contains countries with deep inequalities in income distribution, where small groups of people maintain a disproportionately high percentage of purchasing power and asset ownership. However, when the mass consumption markets re analyzed, a different picture emerges.

Figure 2.4

The Middle Class Population of Emerging Markets Cities is Burgeoning



Source: Winning in emerging market cities, BCG, 2010.

Emerging consumers in Latin America represent about 50-60% of the population and approximately 30-40% of the purchasing power. In general, “low-income” segments grow as economic conditions worsen. In addition, while these segments in the aggregate spend significant amounts on food, drink, personal care and cleaning products, individually low-income households spend a greater percentage of their income on goods consumption.

Figure 2.5

Consumption and Socio Economic Segmentation in LATAM



Source: Countries and Consumers, Euromonitor International, 2011.

c. Consumer Purchasing Trends in Emerging Markets

(Creando Valor para los Consumidores Emergentes en Retailing, The Coca Cola Retailing Research Council Latin America, Booz Allen Hamilton, 2003)

Despite significant barriers, these consumers are still attracted to large supermarkets, creating opportunities for large retail chains to meet the needs of these groups. However, this group's needs are met largely by small retailers, who do this well. In comparison, large supermarket chains fail in key areas in the minds of these consumers.

They are often perceived as places to “stock up” or too “Teaser” – and the assortment of products is increasingly opposed to the these consumers' economic situation: large-sized, expensive items, promotions that lead to buying too much. Relatively large distances have to be travelled to get to them, which requires investing time and money in transportation. There is a perceived lower quality in the perishable categories, and higher-end prices – even if that perception is not in line with reality in most cases. In addition, emerging consumers complain of the “cold treatment” by employees when they buy at large retailers – they value personal relationships and emotional closeness when they buy.

Furthermore, although the opportunity is large, the buying habits of emerging consumers involve economic challenges for retailers. The buying behavior of this group is characterized by a small average ticket, composed of low-margin products; it is self-restricted and has a low conversion to impulse buying, with a focus on promotions designed to generate traffic which may mean lower returns on investment promotion. Therefore, the simple expansion of the value proposition and the formats of the major chains to cover the issue of geographic proximity will certainly have a negative effect on financial performance; retailers will experience lower gross margins and higher costs. In addition, the investment to build or supplement local networks to increase coverage may provide inadequate or negative returns.

d. LATAM Demographics and Consumer Profile:

(Income and Expenditure, Euromonitor International, 2011)

(Spotlighting Consumers in the Americas, Euromonitor International, 2011)

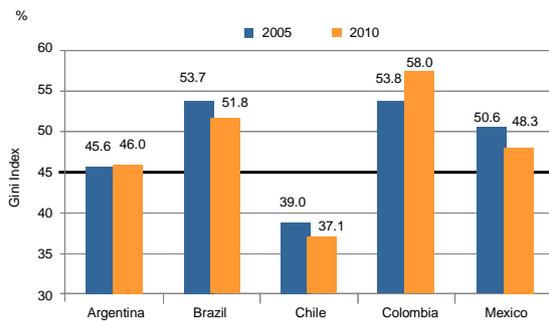
56 million households in Latin America joined the middle class during the 1995-2010 period, according to an analysis published by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) during early 2011. However, this rosy picture masks a more complex underlying reality: While these newly minted middle-class consumers may be much better off than their parents, their status is often tenuous, with insecure jobs and poor access to education for their children. In many cases, they are more likely to fall back into poverty than rise into further affluence. The middle class in general, in contrast to the United States, does not have unemployment benefits, and the pension system is extremely poor.

The demographics of the main economies in the region (except Venezuela) show similarities in some population parameters:

- Young population (15-19 years old) represents the majority of the D, E segments (low income).
- Severe income inequality between different social classes, especially in Brazil and Colombia.
- Good prospects for social mobility or at least improving income levels.

Figure 2.6

The GINI Index in LATAM



Source: Spotlighting Consumers in the Americas, Euromonitor International, 2011.

d.1) Brazil:

Thanks to continued economic stability, Brazil's middle-income classes have continued to expand, while the top-earning social class A grew by 9.5% over 2005-2010.

In 2010, the majority of Brazilians fell into social class E, which accounted for 42.5% of the population aged 15+. This social class mostly includes subsistence farmers, migrants from rural areas inhabiting urban shanty towns, pensioners, and young people yet to enter the workforce. The second-largest social class is D, accounting for 31.5% of the population aged 15+. This class mostly consists of unskilled or semi-skilled workers, many of whom are employed in the country's expanding manufacturing or agricultural industries. As these two social classes combined account for nearly two-thirds of the population aged 15+, there is a vast market for budget products and services in Brazil. Brazil's cities are experiencing a growing influx of rural migrants, representing a target for low-cost personal goods, foodstuffs and budget furniture.

Social class C accounted for 12.1% of the population aged 15+ in 2010; followed by social class A, with 8.5% of the population aged 15+; and social class B, with 5.3% of the population aged 15+. Social class C enjoyed the strongest expansion over 2005-2010, growing by 14.4%, followed by social class B at 13.7%. This supports the general trend of development and increasing living standards in the country, as more people move out of low-income groups and into the middle-income brackets. Consequently, social class E saw the slowest growth over 2005-2010, with 2.6%.

In 2010, the 25-29 age group held the largest shares within social classes B and C, accounting for 17.8% and 17.6%, respectively. This suggests that more young people are entering the labor market thanks to economic stability. Increased foreign investment in the country's manufacturing and service sectors has played a role in a burgeoning middle class by generating demand for both semi-skilled and skilled labor, which has meant a concomitant rise in incomes. Social class C will see the highest expansion over 2010-2020 at 17.6%, followed by social class B with 17.2%. Again, social class E is forecast to see the lowest growth over 2010-2020, at 12.1%.

Social class A expanded by a respectable 9.5% over 2005-2010 to reach 12.4 million people. This class, consisting of top earners in mostly managerial positions, is forecast to grow by a further 15.6% over 2010-2020. Marketers should be aware of a growing sophistication among

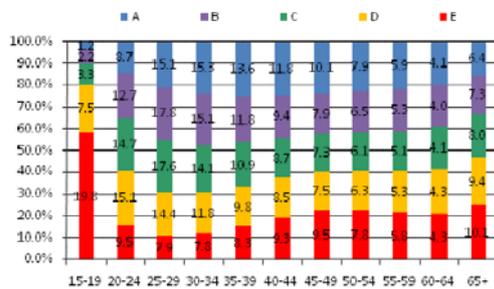
well-paid consumers who will be willing to spend on luxuries such as new cars, private healthcare and education, as well as communication and travel. There is also greater environmental awareness among upper income classes, generating demand for “sustainable” products. In 2010, 30.4% of those in social class A were between 25 and 34 years old. The large proportion of young members in the highest social class is in contrast to more established industrial countries but similar to other BRIC countries such as India, where 30.2% of social class A is represented by those aged 25 to 34.

Regarding income level, those aged between 30 and 39 enjoyed the highest average gross incomes in 2010, while the top earners fell within the 40–44 age band, accounting for 18.4% of those with an annual gross income of US\$150,001+. All age groups are expected to see increases in average gross income over 2010–2020, with an average gross income increase of 31.0% in real terms. For planners, a growing slice of wealthy pensioners will buttress demand for leisure activities and niche holiday packages tailored to the means and needs of senior citizens. An overall increase in the elderly population will also translate into more demand for health goods and medical services. The income concentration reflects Brazil’s predominately young population, which is rapidly filling the ranks of the middle class. Among the younger consumers, there is high demand for technology products as they enter the labor force and acquire more disposable income. Easier access to credit will also bolster sales for products such as smart phones, laptops and other electronic gadgets.

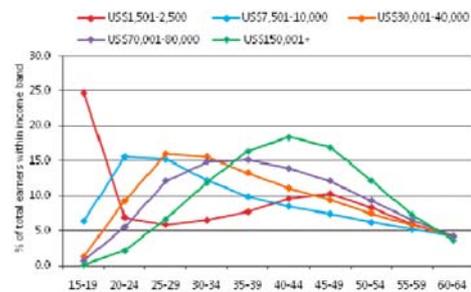
Figure 2.7

Socio demographics indicators in Brazil

Brazil Age Composition of Social Classes 2010



Brazil Selected Income Bands by Age 2010



Source: Income and Expenditure: Brazil, Euromonitor International, 2011.

d.2) Mexico:

Social class A makes up a small ratio of the population aged 15+, with the younger generation found in D and E. The growing lower middle classes of B and C also offer more promise.

Some 9.5 million people made up social class A in 2009; this is all Mexicans whose gross income is $\geq 200\%$ the average gross income of all individuals aged 15+, otherwise known as the upper middle class, made up of professionals and managers. Social class A represented 12.3% of the population aged 15+, a relatively small minority but comparable to that of other Latin American countries. Nonetheless, social class A has been expanding, increasing from 8.7 million in 2005. The lack of mobility between economic classes and incomes is still a problem in Mexico, with the initial investment required for good education an impediment to many in

society. The ages with the highest average income, 30-34 and 35-39, also represent the majority of social class A, with 17.2% and 17.4% of the total, respectively.

The vast majority of the population aged 15+ consists of low-earners, with more than 50% to be found in social classes D and E. The majority of Ds and Es are aged between 15-19, with 17.0% and 17.5%, respectively. As such, this class offers considerable potential as consumers. A large young population typically spends the majority of its income on durable goods, since many live at home with their families and do not have to face the fiscal responsibilities of bills, rent and other overheads. Thus, cheap electronics, low-end clothing and fast food are the mainstay of this demographic. As total annual disposable incomes rise (a projected increase of 50.5% in real terms for the period 2009-2020), more of the younger groups will be entering lower middle class status, increasing their expenditure on durable goods. The forecast for the period 2009-2020 is that the country's lower middle class will experience the biggest expansion, with B (20.4%) and C (20.5%) seeing more growth than any other class. This means a shift further away from essentials such as food towards more goods and services such as leisure and recreation. Tapping this growing revenue stream should be the focus for investors and planners.

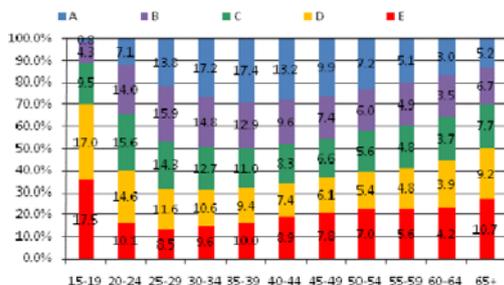
In relation with income levels, middle managers and professionals in the 30-49 age range bring home the largest earnings, while the younger population, despite making up the largest demographic, struggles to make an economic impact. Those in their thirties enjoy the highest average gross income in Mexico. The majority reside in Mexico City, which also caters to luxury despite containing a large amount of poverty.

The forecast for 2009-2020 sees the 40-49 group becoming Mexico's highest average earners by 2020. In fact, the highest growth rates up to 2020 are all in the 40+ age groups, with the 65+ bracket seeing the largest increase of 39.4% in real terms. This can be explained by the significant inequality and class-based status of Mexican society; those in the older age groups who have developed the contacts and experience will have the most opportunities for expanding their income. Mexico also has a population that is ageing, with a declining fertility rate, and the over 55s are expected to triple in number by 2020.

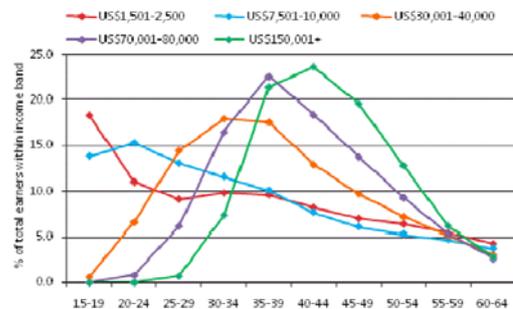
Figure 2.8

Sociodemographic indicators in Mexico

Mexico Age Composition of Social Classes 2009



Mexico Selected Income Bands by Age 2009



Source: Income and Expenditure: Mexico, Euromonitor International, 2010.

d.3) Argentina:

Social class A, or the upper middle class, expanded by 7.3% over 2005-2010 to reach 3 million members in 2010, accounting for 10.0% of the population aged 15+.

The most represented social class in 2010 is E, accounting for 36.6% of total population aged 15+ in 2010, followed by social class D with 31.4% of the population aged 15+. Social class E consists mostly of pensioners, casual workers as well as those on welfare; social class D includes semi-skilled and unskilled laborers, many of whom work in the agricultural sector. The sheer size of these two groups combined means there is a strong demand for budget goods and services. Social class C accounted for 14.9% of the population aged 15+ in 2010, followed by social class B with 7.1% of the population aged 15+.

Social class A, or the upper middle class, expanded by 7.3% over 2005-2010 to reach 3 million members in 2010, accounting for 10.0% of the population aged 15+. Only social class E saw a greater expansion during this period, at 7.8%, while all other social classes expanded by around 6.0%. This trend of universal expansion is expected to hold over 2010-2020, with social class A forecast to grow by 12.7%, second only to social class E with 15.1%. Social classes B and C are set to see period growth over 2010-2020 of 9.9% and 9.1%, respectively.

An ageing population will be a major factor behind the bulge in both the upper and lower social classes. In fact, it is forecast that by 2015 the Argentinean population will have the highest percentage of its population aged 65+ among Latin American nations. The 65+ age group accounted for the highest share within social class E, with 14.8%. This share is forecast to grow to 15.8% by 2020. Meanwhile, the 65+ age group will also see its share increase in social class A, from 10.0% in 2010 to 11.7% by 2020. For marketers, this opens up potential for health goods and medical services tailored to both high and low-income pensioners. For the wealthier consumers, vacation packages and leisure activities will be a strong draw.

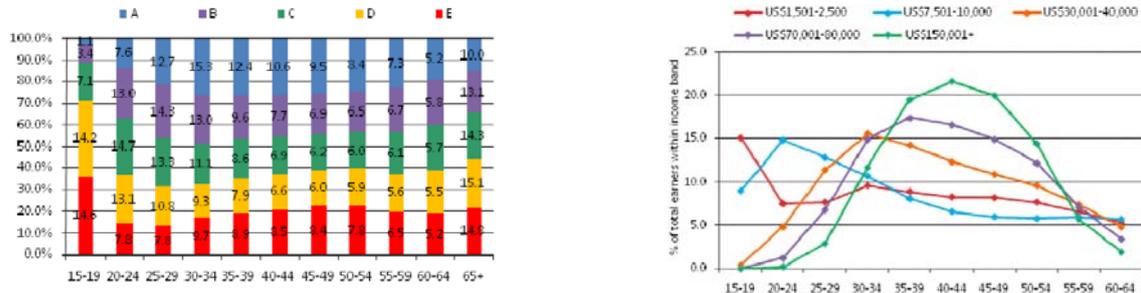
Regarding income levels, the highest income earners in 2010 were in the 35-49 age group, accounting for 61.1% of those who earned US\$150,001+. The emergence of a new generation of high-income, younger adults in their thirties will mean more spending on categories such as household items as many members in this age bracket have young families and will want to replace household goods on a more regular basis. Families are also keen to shop in supermarkets, hypermarkets and shopping centers. The largest age group in the top income bracket of US\$150,001+ was the 40-44 year-olds, with 21.6% in 2010. These high earners are mostly in managerial positions and are prone to spend on luxury products such as specialized food and drink, as well as leisure and travel.

Argentina faces the situation of both an ageing population and an increasing pool of potential workers, thus exerting downward pressure on wages for those in their thirties. Thus, in the longer term, the 30-34 and 35-39 age groups will see some of the slowest period growth in average gross income over 2010-2020, at 33.2% and 32.4%, respectively, in real terms. By contrast, the 65+ age group will see the highest period growth over 2010-2020, at 44.9% in real terms. Higher gross income within older age brackets will mean more opportunities for sectors such as health and wellness tourism. There will also be more demand for health and personal care products, such as anti-ageing creams.

Figure 2.9

Sociodemographic indicators in Argentina

Argentina Age Composition of Social Classes 2010 **Argentina Selected Income Bands by Age 2010**



Source: Income and Expenditure: Argentina, Euromonitor International, 2011.

d.4) Colombia:

The low-income category, social class E, will see the highest expansion rate over 2011-2020, at 18.7%, followed by the top-income category, social class A, at 14.7%.

As of 2010, social class E accounted for nearly half the population aged 15+, with 48.3%. The second-largest group in 2010 was social class D, with 28.7% of the population aged 15+. Pensioners, the lower working class, students and recipients of state aid make up a large proportion of both these social classes. As Colombia has a large agricultural sector, members of these social classes include many semi-skilled and unskilled field laborers. Combined, social classes D and E totaled 25.4 million people in 2010, just over two-thirds of the entire population aged 15+. This represents a huge market for essential goods as well as budget household products.

Social class E will see the strongest expansion over 2011-2020, with growth of 18.7%. An ageing population is the driving force behind this growth, as many more Colombians retire and rely on their relatively modest pensions. In 2010, the younger age groups dominated social class E, with the 15-19 age band being the most representative, accounting for 20.1% of the total. However, rising incomes among the younger population mean that their numbers within social class E will begin to decline while all groups above 50 years of age will see an increase. The 65+ age group will see the greatest expansion within social class E over 2011-2020, growing by 60.8% compared to only 0.1% for the 15-19 age group.

Meanwhile, social class A, the high-income class, will see the second-largest expansion over 2011-2020, with 14.7%. In 2010, social class A totaled 2.7 million people, or 8.2% of the population aged 15+. Those aged between 30 and 34 accounted for the largest share within social class A, at 13.0%. This age group within the top class represents the burgeoning number of well-qualified, tech-savvy professionals that have been the driving force behind the country's growing financial services industry. Similarly to social class E, the 65+ age group will see the strongest growth over 2011-2020 within social class A, with its share expected to grow from 8.5% in 2010 to 11.6% by 2020. This will represent an opportunity for marketers of private healthcare, which will see greater demand with the increase of a wealthier elderly demographic.

Colombia's biggest earners can be found at the lower end of the middle-age demographic, underscoring a new crop of younger professionals generated by an expanding financial services sector. Similarly, this age group is a good target for luxury items, although with many in this band having younger children, spending will be more focused on family expenses and school fees, which are high in Colombia.

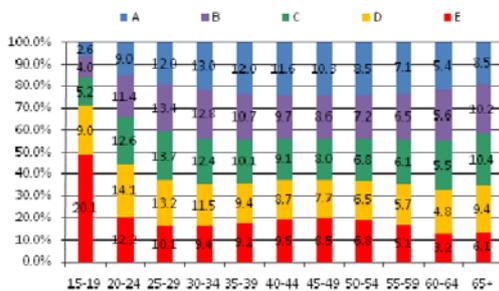
Despite an economic slowdown in 2008-2009, the Colombian average gross income still grew at a respectable 12.4% in real terms over 2005-2010. As income levels rise across all age brackets, there will be more room for discretionary spending on recreational activities such as dining out and travel. More money among younger cohorts will also generate a boost in demand for Internet-related products, mobile phones and other electronic gadgets.

The "hot spot" on the chart below shows a concentration of income in the 15-37 age bracket, with annual incomes among this group of between US\$900 and US\$8,000 in 2010. This age group is expected to see its gross income expand strongly over the period 2011-2020, thus making it a significant consumer segment in the future. As people in this age group will see stronger purchasing power, marketers should look to target them with affordable luxury goods such as telecommunication products and mobile phones as well as inexpensive but trendy clothing brands.

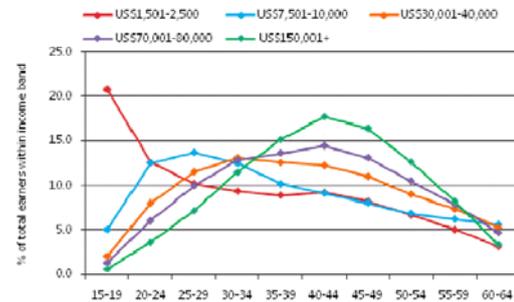
Figure 2.10

Sociodemographic indicators in Colombia

Colombia Age Composition of Social Classes 2010



Colombia Selected Income Bands by Age 2010



Source: Income and Expenditure: Colombia, Euromonitor International, 2011.

d.5) Chile:

Chile will continue to see a rising middle class, while its social class distribution is far more balanced compared to its neighbors, with only 29.5% of the population aged 15+ included in the lowest social class E in 2010.

The most represented social class in Chile is D, the "lower middle class", which accounted for 35.3% of the population aged 15+ in 2010. The second-largest social class was E, with 29.5% of the population aged 15+. Social class E is primarily represented by the 15-19 age group, which accounted for 18.8% of the class in 2010. The share of 15-19 year olds within social class E is set to drop over the 2010-2020 period, to 14.4%. This means more of the younger generation will be able to move into higher income brackets, signaling the increasing mobility and capability of the young to demand higher wages. Meanwhile, this drop off will be largely taken

up by the elderly, with the share of those aged 65+ in social class E expected to rise from 11.6% in 2010 to 15.0% by 2020.

The “middle class”, or social class C, will be the fastest-growing social segment in Chile, set to rise from 17.8% of the population aged 15+ in 2010 to 18.4% in 2020. Social class E is estimated to see the biggest decline over the period 2010-2020, with forecasts pointing to a decrease of one percentage point, from 29.5% in 2010 to 28.5% in 2020.

Social class A, comprising high-income earners, made up 9.2% of Chile’s population aged 15+ in 2010. The 45-49 age group accounted for the highest percentage of social class A in 2010, with 13.6%. Owing to population ageing, they will be replaced by the 65+ age group, set to rise from 11.6% of class A in 2010 to 14.5% in 2020. Social class A comprised 1.2 million Chileans in 2010. This is forecast to rise to 1.3 million in 2020.

Chile’s social class distribution is quite different from its neighboring countries. In Argentina, in 2010, social class A makes up a similar 10.0% of its population aged 15+, but social class E in the country comprises 36.6%. The difference is even more pronounced in Peru, where 46.1% of its population aged 15+ was in social class E in 2010. Marketers should therefore either focus on the higher-income groups in Chile found in social class A, due to this group’s wealth and purchasing power, or the lower-middle class in social class D, due to the group’s sheer size in numbers.

After moderate growth in 2008-2009, annual gross incomes grew by 6.7% in real terms in 2010 as the economy gathered steam in the wake of the financial crisis. The baby boomer segments, aged between 40 and 54, have the biggest earning potential in Chile. Members of this age group are likely to hold senior management positions and would generally be well-educated. Furthermore, this age group would be more likely to have paid off essentials such as home mortgages and have more ready cash for discretionary spending. Marketers should focus on the baby boomers, which have proved to be heavy users of consumer sectors such as transport, and leisure and recreation, as well as financial and technology products.

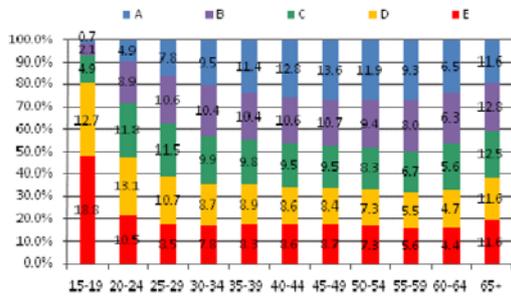
Income disparity between all age groups in Chile is set to narrow slightly and the average annual gross income is expected to rise evenly across all age bands for the period 2010-2020.

Chile is still a young country and its youthful population is increasingly turning to multimedia for information and entertainment. Within the 15-30 age band, an important segment for consumer products are Chilean students aged 18-22. In addition to the essentials of housing and food, growing brand awareness in the country means students are more prone to buying designer labels and following trends. Entertainment options for the student crowd have also widened in Chile, as expenditure potential has multiplied through the development of new shopping malls and plazas. Members of the 23-30 age group are especially keen to spend on new technology, such as computers, mobile phones and the Internet.

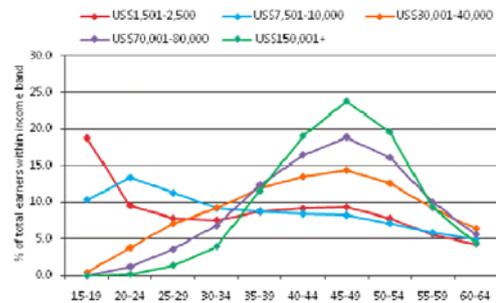
Figure 2.11

Sociodemographic indicators in Chile

Chile Age Composition of Social Classes 2010



Chile Selected Income Bands by Age 2010



Source: Income and Expenditure: Chile, Euromonitor International, 2011.

d.6) Peru:

Combined, social classes D and E totaled 14.8 million people in 2010, or 72.0% of the entire population aged 15+. Meanwhile, in 2010, social class A totaled 2.1 million people, or 10.4% of the population aged 15+.

As of 2010, social class E accounted for nearly half the population aged 15+, with 46.1%. The second-largest group in 2010 was social class D, with 25.8% of the population aged 15+. Pensioners, the lower working class, students and recipients of state aid make up a large proportion of both these social classes. Combined, social classes D and E totaled 14.8 million people in 2010, or 72.0% of the entire population aged 15+. This represents a massive market for essential goods as well as budget household products.

An ageing population is leading the expansion of the older age bands within social class E. Between 2011 and 2020, the 65+ age group is set to grow by 48.3% within social class E, compared to only 1.3% for those aged between 15 and 19. As a result, the 65+ bracket will see its share within social class E rise from 9.4% in 2011 to 12.0% in 2020. However, social class E is also due to see the weakest expansion over 2011-2020, with its share of the population aged 15+ falling from 46.1% in 2010 to 45.7% by 2020.

In 2010, social class A totaled 2.1 million people, or 10.4% of the population aged 15+. Those aged between 30 and 34 accounted for the largest share of the top-income category, with 14.0% of the total in 2010. Those in their thirties are to continue dominating social class A: in 2020, the 30-34 age group will retain the highest share at 13.9%, followed by the 35-39 bracket with 12.8%. Peru is similar to other countries in the region in this regard. For example, in Argentina, the 30-34 age group also accounted for the largest share in social class A, at 15.3% in 2010.

Thirty-something's in the top social class are generally young professionals who are quickly climbing the corporate ladder and are still strongly involved in raising a family. For marketers, people in their thirties are prime targets for products related to leisure activities, financial services and housing. Greater home ownership among this segment will also drive demand for in-home technology, home entertainment systems and Internet-related services. The number of Peruvian Internet subscribers stood at 1.4 million in 2010 compared to 833,200 in 2005 – a period increase of 71.8%.

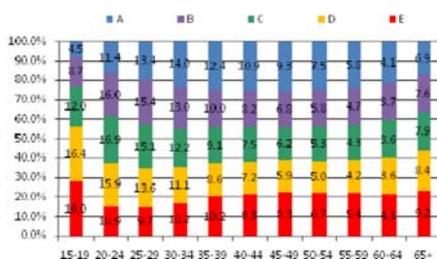
The Peruvian average gross income is set to grow by a real 34.5% over 2011-2020 as income levels rise across all age brackets. Meanwhile, those aged 40-49 dominated both the average gross income and the annual gross income tables in 2010. The more affluent members of the 40-49 age group are generally professionals working in managerial positions at large national or multinational companies, with large enough salaries to afford luxuries, branded clothing, entertainment and tourism. Marketers should also note that those in their forties usually have established families and many have started to own homes, ramping up demand for household goods and home improvement services. Again, this would make the 40-49 age group the prime target area for luxury goods. However, given Peru's extremely unequal income distribution, only a very small proportion of the population is considered high earners.

Demographic changes associated with an ageing population and reduced fertility rates mean that those in their thirties will become a larger consumer segment in the years ahead. Indeed, those aged between 35 and 39 will enjoy the highest growth in average gross income over 2011-2020, with 37.2% in real terms, followed by the 30-34 group, with a real 42.0%. Meanwhile, the Peruvian average gross income is set to grow by a real 38.6% over 2011-2020 as income levels rise across all age brackets. This will mean more room for discretionary spending (expenditure on non-essentials) in areas such as financial services, real estate and travel products, as well as household goods and electronics. Planners also need to be aware of an ageing population that will require more medical goods and services and, at the wealthier end, specialized leisure activities.

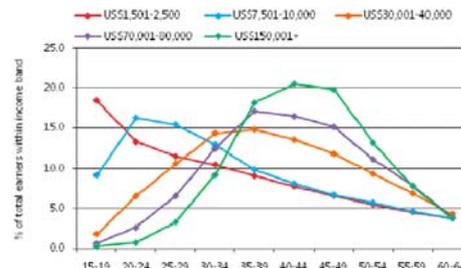
Figure 2.12

Sociodemographic indicators in Peru

Peru Age Composition of Social Classes 2009



Peru Selected Income Bands by Age 2010



Source: Income and Expenditure: Peru, Euromonitor International, 2011.

3. LATAM Retail Market Description

a. Retail Forecasting – Growth in LATAM

(Retail Global Expansion: A portfolio of opportunities, AT Kearney, 2011)

(Retailing: Future Scenarios (Part 1). How Might Changing Market Environments Affect Growth In Emerging Regions?, Euromonitor, 2011)

In 2011, some developing markets are exploding and changing the balance of power. These developing markets now drive the agenda in global arenas; the recession has accelerated the shift in global production and consumption from West to East, North to South and developed to

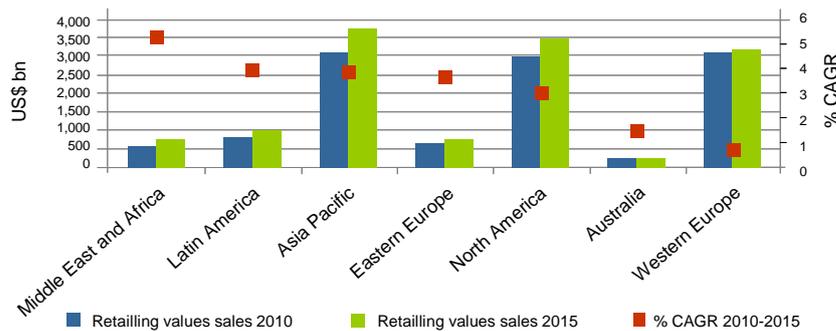
developing. However, while Asia leads the global recovery, South America appears as a lead region in the retail scenario, thanks to its continued growth and a lack of investment fatigue that has affected some traditional chart-toppers.

Across the regions, forecast data for retail sales show a now familiar picture, with the emerging regions of the Middle East and Africa, Latin America and Asia Pacific leading growth, whilst the mature markets of Australasia and Western Europe struggle to make headway. Asia Pacific has established itself as the key emerging region in retail, with the exception of the ailing Japanese market. Even excluding Japan, the Asia Pacific regional market is still bigger than the other emerging regions (the Middle East and Africa, Latin America and Eastern Europe) put together, and is forecast to enjoy a CAGR of 6.5% over 2010-2015.

South America has survived the recession better than most regions and posted an impressive 6% GDP growth in 2010. Rich in natural resources, with an increasingly sophisticated and diversified business environment, an abundant labor force and stable relationships with a diverse range of trading partners, the region has not only attracted attention, but also investment.

Figure 3.1

Emerging Markets Lead Forecast Retail Growth



Source: Retailing: Future Scenarios (Part 1): How Might Changing Market Environments Affect Growth In Emerging Regions?, Euromonitor, 2011.

b. Retailers (Revenues, Profits, Formats, etc.)

(Global Powers of Retailing Geographical Analysis, STORE Magazine and Deloitte, 2010)

(Top Retail Trends, STORE Magazine and Deloitte, 2010)

(Global Powers of Retailing Top 250, STORE Magazine and Deloitte, 2010)

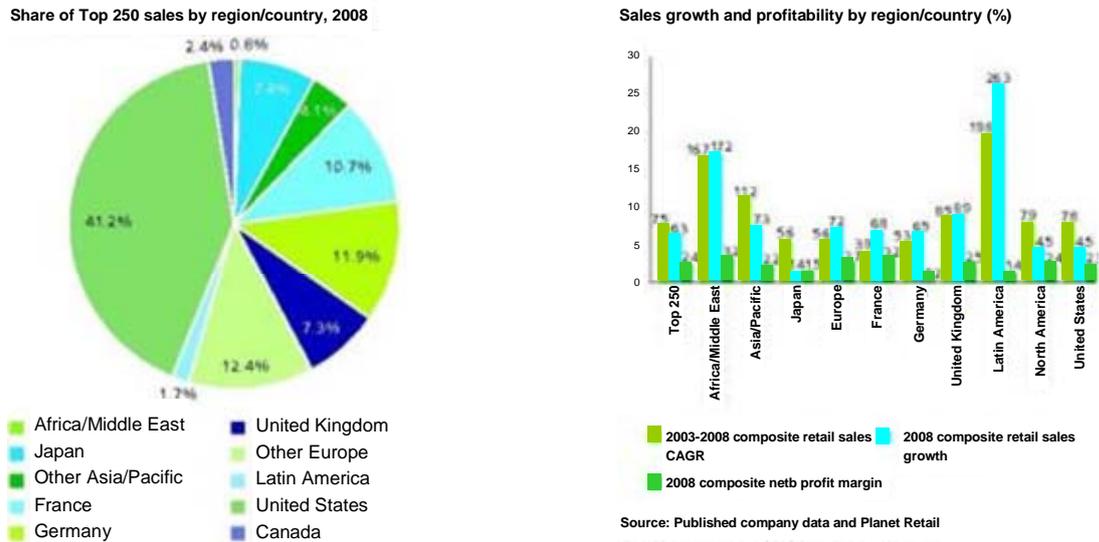
Composite retail sales jumped 26.3% for Latin America's Top 250 retailers. Acquisitions by Chile's Cencosud and Falabella, Mexico's Soriana and Brazil's Pão de Açúcar, among others, contributed to the region's leading growth rate, as did strong organic growth.

Latin America, which was the most profitable region in fiscal 2007 with a composite net profit margin of 5.3%, had the lowest composite profitability (1.4%) in 2008. Almost all of the retailers in this region posted lower profit margins in 2008, but the poor composite result is largely due to troubled Mexican retailer Controladora Comercial Mexicana, whose net profit margin plunged from 5.1% to -16.1%.

Latin American retailers were the least likely to operate internationally, doing business in an average of 1.8 countries. Seven of the 10 retailers in this region had no international operations.

Figure 3.2

Geographical Retail Indicators



Source: Global Powers of Retailing Geographical Analysis, STORE Magazine and Deloitte, 2010.

b.1) World Class Retailers:

(Global Powers of Retailing Top 250, STORE Magazine and Deloitte, 2010)

(Retail Internationalization from emerging markets: case study evidence from Chile, Constanza Bianchi, International Marketing Review, 2008)

Retail internationalization is increasing in Latin America. During the last 15 years, this region has experienced the arrival of large American and European retail chains such as Wal-Mart, Carrefour and Casino, with their international expertise and vanguard technology. In Mexico, Argentina and Brazil, these retail chains from developed markets have become important market leaders.

The presence of retailers from developed markets is the driver in the region, especially due to the natural frontier with Mexico that allows easy expansion from the United States. In the 250 Top Global Retailers, 39 retailers with presence in the LATAM can be identified. Within those, 29 are based outside the region, with important world-class actors such as Walmart, Carrefour, Home Depot, Best Buy, among others.

Figure 3.3

Global Retailers in LATAM by Country

Brazil	Mexico	Argentina	Colombia	Chile	Peru
Wall-Mart Stores, Inc.	Wall-Mart Stores, Inc.	Wall-Mart Stores, Inc.	Carrefour S.A.	Wall-Mart Stores, Inc.	Cencosud S.A.
Carrefour S.A.	Costico Wholesale Corp.	Carrefour S.A.	Casino	PPR. S.A.	SHV Holdings / Makro
Casino	The Home Depot, Inc.	Casino	PPR. S.A.	Inditex, S.A.	S.A.C.I. Falabella
PPR. S.A.	Seven & i Holdings Co.	PPR. S.A.	Inditex, S.A.	Louis Vuitton	
Inditex, S.A.	Best Buy Co. Inc.	Inditex, S.A.	Louis Vuitton	Cencosud S.A.	
Groupe Adeo, S.A.	Safeway Inc.	Staples, Inc.	Cencosud S.A.	S.A.C.I. Falabella	
Louis Vuitton	El Corte Inglés, S.A.	Louis Vuitton	Office Depot, Inc.	Blockbuster Inc.	
Grupo Pão de Açúcar	PPR. S.A.	Cencosud S.A.	Limited Brand, Inc.		
Cencosud S.A.	Alimen. Couche-Tand	Limited Brand, Inc.	SHV Holdings / Makro		
Limited Brand, Inc.	Inditex, S.A.	SHV Holdings / Makro	S.A.C.I. Falabella		
Oxilane Groupe	H.E. Exit Grocery	S.A.C.I. Falabella	Blockbuster Inc.		
Casas Bahia comercial	The Gap, Inc.	Blockbuster Inc.	Groupe Vivante		
SHV Holdings / Makro	Louis Vuitton	Financière Richemont	FEMSA Comercio		
Lojas Americanas S.A.	Office Depot, Inc.		Financière Richemont		
Blockbuster Inc.	Limited Brand, Inc.				
Financière Richemont	Bed Bath and Beyond				
	Soriana				
	AutoZone, Inc.				
	OfficeMax Inc.				
	Lumottica Group S.p.A.				
	RadioShack				
	Blockbuster Inc.				
	Comercial Mexicana				
	FEMSA Comercio				
	Comercial Chedraul				
	Financière Richemont				
	Puerto de Liverpool				

Source: Global Powers of Retailing Top 250, STORE Magazine and Deloitte, 2010.

b.2) LATAM Retailers:

(Top Retail Trends, STORE Magazine and Deloitte, 2010)

(Global Powers of Retailing Top 250, STORE Magazine and Deloitte, 2010)

(Creando Valor para los Consumidores Emergentes en Retailing, The Coca Cola Retailing Research Council Latin America, Booz Allen Hamilton, 2003)

Many emerging-market retailers are rapidly becoming world-class players in their own right. Not only are they well equipped to compete with the global giants in their home markets, some are even becoming competitive in other markets. The next step in the evolution of these players will be invest in developed markets. Many emerging markets now have sufficiently large middle classes to support the efficient operations of a large, sophisticated home-based retailer. Such retailers are now able to tap into global expertise, often hiring reverse expats who have spent time in affluent markets gaining valuable knowledge and experience.

Important local players in the industry are based mainly in Brazil, Chile and Mexico. The size of the market is a key factor in the retail industry. For that reason Brazilian and Mexican retailers such as Pão de Açúcar, Casas Bahía, Soriana, among others, tend to operate locally in their countries, while Chilean retailers such as Cencosud or Falabella show an international expansion to other countries in the region such as Argentina, Peru or Colombia.

Figure 3.4

Store-Based Retailing Brand Shares (%)

BRAZIL		MEXICO		ARGENTINA	
	2010		2010		2010
Cia Brasileira de Distr.	5.0	Wal-Mart	13.2	Carrefour	4.6
Wal-Mart Brasil Ltda	4.5	Soriana	3.8	Cencosud	3.3
Casas Bahia Comercial	3.3	OXXO	2.7	Coto CICSA	1.8
Carrefour	3.0	P. de Liverpool	1.9	Wal-Mart	1.5
Casas Pernambucanas	1.0	Coppel	1.9	Imp. y Exp. Patagonia	1.5
Lojas Americanas SA	1.0	Com. Chedraui	1.8	Garbarino	1.5
Magazine Luiza SA	0.9	Contr. Comercial Mex.	1.8	Frávega	1.3
Botica Comercial Farma.	0.8	Sanborns	1.3	Easy	1.0
C & A Modas	0.8	Casa Ley	1.1	Red Megatone	0.8
Lojas Renner SA	0.6	Elektra	0.9	Farmacity	0.8

COLOMBIA		CHILE		PERU*	
	2010		2010		2010
Éxito	3.8	D&S (Walmart)	12.7	Falabella	4.8
Grandes Sup. Colombia	2.3	Cencosud	10.4	GSW	4.2
Olimpica	1.8	SMU	6.3	Super. Peruanos	3.0
Colombiana Comercio	1.1	Sodimac	6.0	Ripley	1.7
Sodimac	0.9	Falabella	6.0	Eckerd Peru	1.2
Coop. Peq. Droguistas	0.8	Paris	3.2	Maestro Home Center	1.0
Cacharrería La 14	0.6	Ripley	3.1	Tiendas Peruanas	0.9
Carulla	0.5	La Polar	2.7	Imp. Hiraoka	0.8
Copservir	0.4	Farm. Cruz Verde	2.6	Cetco	0.7
CAFAM	0.3	Omega	2.5	Unique	0.6

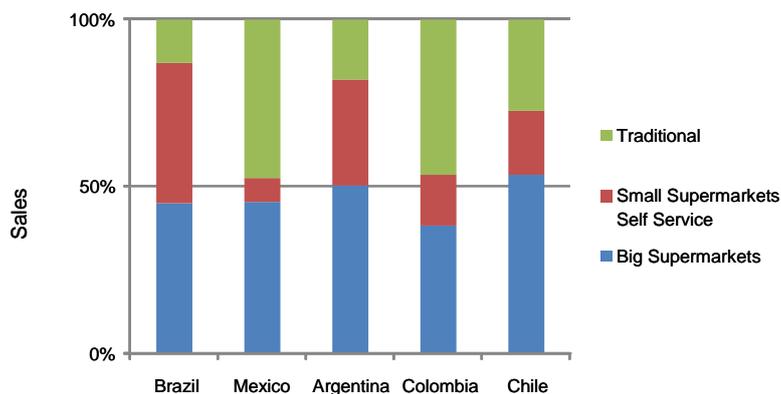
*Store and non-store brand share

Source: Retailing in Brazil - Mexico - Argentina - Colombia - Chile - Peru, Euromonitor International, 2011.

Despite the strong presence of big retailers in LATAM, there is a significant presence of traditional and small supermarkets. In terms of sales, 55% of the national sales are made in traditional channels.

Figure 3.5

LATAM Retail Channels



Number of Stores	Traditional	Small Superm.	Big Superm.
Brazil	285,000	58,800	2,000
Mexico	432,550	8,000	1,320
Argentina	98,600	12,690	1,350
Colombia	159,000	740	320
Chile	60,600	410	590

Source: Creando Valor para los Consumidores Emergentes en Retailing, The Coca Cola Retailing Research Council Latin America, Booz Allen Hamilton, 2003.

4. Shopping Experience

a. Location and Formats

(Creando Valor para los Consumidores Emergentes en Retailing, The Coca Cola Retailing Research Council Latin America, Booz Allen Hamilton, 2003)

(Breaking the myths on emerging consumers in retailing, D'Andrea, 2006)

Emerging consumers are often looked at as junior versions of their higher-income compatriots, who should naturally flock to the modern infrastructure, shopping experience, and the variety and value that large supermarkets provide. Emerging consumers may not be all that different from higher income segments in that all consumers tend to look for “good” prices at stores they consider to be within an acceptable distance. But the similarities probably stop there. Other distinct format characteristics beyond the proximity/price combination seem to distinguish them from higher-income consumers.

The location of small retailers is a important factor for emerging consumers, who mostly prefer to do their daily shopping there. Small retailers abound in the neighborhoods where they live and work, and physical proximity of business translates into a significantly lower “total cost of purchase.”

In terms of absolute number of shops, small retailers dominate the commercialization of consumer products in some countries, representing hundreds of thousands of outlets. Small retailers reach remote parts of the region and give the retail landscape in Latin America its unique composition. Various retail formats, within and between countries, offer a sharp contrast to the broad term “traditional business” in the trading systems of more mature markets. Outdoor and street formats take many forms in each country and provide colorful social and economic centers.

For some product categories such as fresh fruit, vegetables, meat, bread, and milk, emerging consumers in fact do not prefer large chain supermarkets at all. Instead, there is a strong association of fresh categories with street and open-air formats where quality is perceived to be higher, prices are substantially lower, products may be sampled, and the customers can actively manage the price/quality tradeoff by choosing the time of day at which they buy. It is important to note that for these consumers, the definition of “quality” in fresh categories is not necessarily consistent with the uniformly shaped and colored product typically offered for sale in large supermarkets.

As it turns out, “modern” infrastructure is attractive to emerging consumers but relatively unimportant as a store selection criterion when it comes to fresh produce. Aspects of the store’s physical appearance are secondary, with infrastructure and hygiene used as a screen rather than a driver of choice. Services associated with the shopping experience at large chain supermarkets (e.g. promotional flyers, delivery with minimum purchase, loyalty cards, and extended operating hours) are similarly less important.

A portion of emerging consumers are attracted to large supermarkets but, by and large, these large chain formats lack a key element: the emotional proximity and feeling of community that comes from personal relationships with shopkeepers or store personnel. Personal relationships are usually the top factor for differentiating between outlets with comparable prices and distance for this group.

These relationships typically result from a history of positive interactions and experience – providing customers with a sense of familiarity and belonging. Personal relationships – rather than formal processes – are the mechanism by which this group generally resolves issues such as exchanging a product, coming up short at the cash register, selecting a product during a stockout, or feeling confident that produce and meats are fairly weighted. In comparison, emerging consumers report poor treatment by staff while shopping at large chain stores.

Figure 4.1

Different Formats per LATAM Country

Format	Brazil	Mexico	Argentina	Colombia	Chile
Big Scale Commerce	- Discount Stores - Hypermarkets - Big Supermarkets - Wholesalers ("Atacadistas")	- Warehouse - Hyper/Megamarket - Big Supermarkets - Retail Club	- Discount Stores - Hypermarkets - Big Supermarkets - Wholesales	- Hypermarkets - Big Supermarkets	- Discount Stores - Hypermarkets - Big Supermarkets - Wholesales
Small Supermarkets: - Small independent - Self Service - Less than 4 POS	- Supermarkets Self Service (Small Supermarkets and Mercadinhos)	- Supermarkets Self Service	- Supermarkets Self Service	- Supermarkets Self Service "Superetes"	- Supermarkets Self Service
Traditional: - Small independent - Front end attendance	- Mercearias / Mercadinhos	- Grocery Stores	- Grocery Stores (Almacenes) Todo Suelto	- Small Stores - Medium Stores	- Grocery Stores
"Street Format" - Limited infrastructure	- Feira Livre	- Tianguis - Wheel Market	- Neighbourhood Ferias - Mobile Ferias - Exchange Club - Door to Door - Vendors	- Public Markets (Abastos) - Square Wholesaler - Mobile ferias - Casetas	- Ferias - Street Vendors
Specialists	- Açougue - Sacolão - Padaria	- Butcher shops - Creameries - Fruit - Poultry	- Butcher shops - Bakery - Green Grocer	- Butcher shops - Frutiver	- Butcher shops - Bakery - Green Grocer
Convenience	- Gas Stations - Bancas / Barracas	- Gas Stations - Estanquillos	- Maxikioskos - Convenience Gas	- Gas Stations - Tobacco Store	- Gas Stations

Source: Creando Valor para los Consumidores Emergentes en Retailing, The Coca Cola Retailing Research Council Latin America, Booz Allen Hamilton, 2003.

b. Product Mix

(Creando Valor para los Consumidores Emergentes en Retailing, The Coca Cola Retailing Research Council Latin America, Booz Allen Hamilton, 2003)

(Breaking the myths on emerging consumers in retailing, D'Andrea, 2006)

Product assortment is certainly a relevant store choice criterion for all consumers, but in the emerging segments, product variety can be a double-edged sword. Emerging consumers do not like to feel their choice is restricted and consequently they value a wide assortment – although admittedly as a point of entertainment. Furthermore, the entertainment value of a wide assortment was clearly associated with “stocking” trips – which occur much less frequently in these segments. In fact, a wide assortment sometimes has a negative effect on consumers because it is either too time-consuming to shop or because it reinforces feelings of restriction and having to do without. Thus, emerging consumers value the “right” product assortment – a mix that is carefully tailored to needs for performance, brands, economy, and feelings of validation.

The assortment in stores and small supermarkets traditionally focuses on cold products, beverages and dry commodities – the main categories of consumers’ emerging demand in their everyday purchases – along with a limited supply of cleaning products, personal care and luxury foods such as canned fish, condiments and cookies. In most countries, the leading brands dominate the choice – especially in traditional stores, where approximately 80-90% of items in inventory are leading brands. By comparison, a sample of retail chains and stores has a higher proportion of private brands, with 60-70% of SKUs.

Figure 4.2
Consumer Preferences in LATAM

	“Staples”	“Secondary”	“Luxuries”
Packaged foods	Rice, beans, dry pasta, oil, salt sugar, tomato sauce, cookies and snacks for kids (value brands) Br: flours (wheat, manioc, corn), canned fish (Class C) Col: lentils	Sweet and salty snacks, some canned food Mex: cereal, snacks Arg: salty snacks, sweets, candy Ch: dressings, mayonnaise	Canned foods, chocolate candy, cookies (leading brands), cereal Arg: tuna, olives, “alfajores” Br: condensed milk, cake mix Ch: heat of palm Col: salty snacks (adults)
Perishable foods	Fruits and vegetables, eggs, bread, margarine/butter Arg: jelly, cold cuts Mex/Br Class C: yogurt	Cold cuts, meats Arg/Ch: sausages Br: yogurt, cheese, chicken Mex: ground hamburger meat Ch/Col: margarine, chicken Value brand sodas (Arg, Col), Br: powdered drink mix Arg/Br: beer	Frozen foods, ice cream Br: frozen lasagna, fried potatoes, hamburger patties Br/Mex: ready to eat pizza Mex/Col: seafood Coca-Cola Arg/Col: wine Mex: tequila, rum CR: Gatorade sports drinks Ar/CR: tang powdered drink Leading brands in detergent and softener Br: furniture polish
Beverages	Coffee, juice concentrate Col: chocolate bars Br: value brand sodas Mex: powdered drink mix Arg/Ch: tea		
Cleaning products	Powdered laundry detergent, bleach, disinfectant Br/Col: bar laundry soap Mex: softener, steel wool Arg: floor cleaner	Softener Arg: multi-purpose cleaners, air freshener Col: liquid dish detergent	
Personal care	Toilet paper, soap, toothpaste, sanitary napkins, deodorant, family shampoo, sanitary napkins Mex: diapers Arg/CR: conditioner, cotton	Leading brand shampoo (Arg, Br), conditioners	Leading brands, perfume Br: personal shampoo, facial lotion Ch: make up Mex: body lotion

Source: Breaking the myths on emerging consumers in retailing, D’Andrea, 2006.

c. Private Label

(The future of private label, Euromonitor International, 2005)

Most of the world’s private label sales are concentrated in Europe and North America, with respective shares of 59% and 37%. Throughout most of Latin America and Asia-Pacific, private label is still in its infancy, though it is growing strongly in many cases.

In Latin America, private label has benefited from the economic recession in recent years, which has forced consumers to seek better value for money. Argentina is one such market that is developing rapidly, even though the private label share stood at only 3% in 2004. Private label sales of the top five retailers (combined) now exceed the sales of the largest 20 branded manufacturers in Argentina, and quality improvements are being made as retailers seek to compete more effectively with top brands. While private label products are still on average 30% cheaper than first-tier products, this gap has been reduced, not only due to price reductions by the big consumer packaged goods companies, but also due to the higher mark-up on private labels by retailers.

Private label development is strongly linked to the growth and consolidation of hypermarkets and supermarkets, as the economies of scale of these large groups make them most suited to the development and distribution of private label products. Hence, the markets which are seeing increasing penetration by foreign retailers tend to be those in which private label sales are growing the fastest. Strategies by retailers to grow their private label businesses have even been the reason behind some acquisitions and mergers in the supermarket sector in recent years.

It is perhaps surprising to note, however, that the penetration of supermarkets and hypermarkets is highest in the Latin America markets, where private label has so far made little progress. While supermarkets/hypermarkets accounted for over 40% of retail sales in Mexico and Colombia in 2003, and over 30% of retail sales in Chile, Brazil and Argentina, private label penetration is only 2% or less in these markets. This is in part due to the fact that most supermarkets in the region are still small or independently owned, and do not have the means to develop their own private labels. Nevertheless, large chains are growing throughout Latin America, and this suggests that there is plenty of potential in these markets for the further development of private labels.

d. On-Line Retail

(Latin America the Hottest Region for Internet Retailing, Euromonitor International, 2011)

In 2010, Latin America topped Internet retailing growth globally, achieving a 24% increase, like Asia Pacific. Over the next five years, it is expected to remain the fastest growing region, registering a 17% CAGR in constant value terms. Internet retailing in Latin America almost tripled in size over the last five years to generate sales of almost US\$12 billion in 2010. However, the channel is still almost three times smaller than direct sales, which remains the preferred non-store distribution channel among Latin American consumers. Brazil is by far the biggest Internet retail market, accounting for 70% of all regional sales. The country also enjoys the highest per capita online spending in the region – at US\$42, followed by Chile and Argentina at US\$36 and US\$23, respectively. Mexico, the second most populous country in Latin America, is lagging behind with an Internet retail spend of just US\$9 per capita. Overall Internet retail sales reached just over US\$900 million in Mexico in 2010.

d1) Brazil:

In Latin America's biggest market, Brazil, Internet retailing is beginning to shift from the economic hub located between São Paulo and Rio de Janeiro to the Northeast region. The number of Internet users has risen the most in the North and Northeast regions. According to the IBGE (Instituto Brasileiro de Geografia e Estatística), the number of Internet users rose by 214% in the Northeast and 171% in the North in 2010. According to MoIP, a company which specializes in online payments, payments from transactions with Internet retailers from the Northeast accounted for 27% of the company's revenues in 2009, compared to 12% in 2008.

d.2) Argentina:

Argentina and Venezuela were the markets which achieved the strongest Internet retailing growth in 2010, reaching almost 40% in current terms. Argentina was also the fastest growing market historically, posting over 57% CAGR between 2005 and 2010. However, despite the growth in the supermarkets' online sales, Argentinean Internet users are still using Internet

retail sites primarily to compare prices. This explains why many retailers like Carrefour and Wal-Mart do not have online stores but do have an extensive product catalogue with prices for people to compare.

d.3) Mexico:

In Mexico, as in other emerging markets, Internet access and e-commerce remain the preserve of more affluent sections of society. While the number of Internet users continues to rise, a large proportion of these belong to income groups A, B and C+, which account for around 20% of the total population, compared to around 40% of all Internet users. Meanwhile, one of the lower-income groups (D), which represents around 37% of the total population, did not register any increase in the number of Internet users in 2008-2009. The economic crisis of 2009 further worsened this situation. Indeed, the share of households with a home computer among lower-income groups (D and E) fell by three percentage points in 2008-2009 to 12%.

The most successful Internet retailers in the country are regular brick-and-mortar retailers that have adopted the Internet to promote retail sales and offer a holistic retailing experience. While there are a few pure Internet retailers such as the music player Tarabu, it is mostly “bricks and clicks” companies such as El Puerto de Liverpool and Grupo Palacio de Hierro that profit in this retailing channel.

5. Consumer Trends

(Consumer Lifestyles, Euromonitor International, 2011)

a. Brazil

a.1) Women in the Labor Force Increases Demand for Household Products:

Brazil has experienced an influx of young women joining the labor force. They have become an important consumer force in the economy because they now have the financial independence that their mothers and grandmothers did not have. These women are in their 20s and early 30s and many of them are finding a job in their field of study right after college graduation, which allows them to gain experience at an early age. These women are characterized by their interest in advancing their careers and investing in their education. They work long hours, and many go to school to learn a second language or pursue a post-graduate diploma. Their lives revolve around work during the week as they are interested in getting experience that will allow them to progress in their careers. These women have much more independence than past generations. As a general rule, many of these women choose to continue living at home for a couple of years while working as a way of saving money to purchase an apartment in the future, when they get married. Afterwards, they are more likely to move away to live by themselves, or with a roommate.

They enjoy going shopping for personal beauty products, clothing, accessories and footwear. They place importance on looking very fashionable and keeping up to date with new fashion trends. They are therefore more likely to spend money on a range of expensive goods relating to their personal care and fashion items. They are choosing to delay having children in order to concentrate on their careers and prefer to wait until they are ready economically to be able to provide their children with more opportunities than they themselves had. Their attitude towards

marriage is very positive. They expect to get married and celebrate this commitment as past generations did. They are also more likely to spend more on their wedding than earlier generations.

a.2) An Expanding Middle Class:

Brazil is experiencing a period of prosperity due to sound macroeconomic policies since the year 2000. This has decreased the economic gap between the rich and the poor. The economy has increasingly provided opportunities to many low-income Brazilians to have a stable, better-paid job than in past decades. According to the Brazilian Institute of Geography and Statistics (IBGE), income from all sources has grown. The real average monthly income from all sources grew 2.3% between 2008 and 2009 reaching R\$1.1. The GINI index decreased from 0.53 in 2008 to 0.52 in 2009. More people are being hired in the formal economy, which has allowed them access to certain working benefits such as money for food, transportation and healthcare. These favorable conditions have propelled many Brazilians into the middle class. For the first time in the country's history, 50% of the population belongs to the middle class. This new middle class is composed of about 94.9 million people. Many of these are getting access to a large number of products and services for the first time in their lives. Many of them are investing in their homes and personal care. This new middle class is becoming increasingly more sophisticated, demanding more products and a higher quality of service.

a.3) Growing Number of Elderly Consumers:

The elderly population is increasing as more people gain access to healthcare and as healthcare becomes more effective. The population aged 60 and over grew by 697,000 people between 2008 and 2009, an increase of 3.3% compared with a 1% rise in the total population. In 2009, 11.3% of Brazilians were 60 and over, compared with 11.1% in 2009 and 9.7% in 2004. Life expectancy at birth has also been on the rise, reaching 73.1 years in 2009. Brazilian demographics are changing steadily, influencing in turn consumer habits and expenditure. Even though Brazil is still a relatively young country, the elderly population is growing at faster rates than in previous decades, making it a group that will have a greater economic impact than in the past. Many of the elderly are receiving income both from their pensions as well as getting help from their family members, giving this group more purchasing power than past generations.

a.4) Lower Fertility Rates Increase Disposable Income:

Brazilians are starting to have fewer children. Fertility rates have decreased over the years to 1.9 children per woman in 2009. According to the IBGE, the lowest fertility rates are found in the states of Rio de Janeiro and Minas Gerais (both 1.6 children per woman). The states with the highest fertility rates are Acre with 3 and Amapá with 2.9 children, respectively. Education is one of the determining factors of fertility rates. According to the IBGE, women with up to seven years of schooling had an average of 3.2 children, whereas those with eight or more years of schooling had only 1.7 children.

Educated couples are deciding to have fewer children in order to maintain a higher standard of living for themselves and their family. Both parents are usually working and leading busy lifestyles and they are therefore choosing to have on average only two children. They believe that by doing this, they will be able to afford private school and support them in other activities such as learning a language, playing sport or travelling during holidays.

a.5) Obesity Causes Concern:

Obesity is becoming an increasing problem in Brazil. This phenomenon is found across all ages and is on the increase. According to the IBGE, in 2008 one in every three children aged 5 to 9 was overweight, representing 33.5% of the total population in this age group. Obesity has increased more in families with higher incomes because many of these children start consuming soft drinks and fast food at an early age, without the nutrition they need for a healthy lifestyle. Among adult men aged 20 or over, 50.1% were overweight in 2010 compared to 41.4% in 2002-2003. Since 1974, the percentage of overweight men has quadrupled from 2.8% in 1974 to 12.4% in 2010. The reason for this increase in obesity is the dramatic shift towards a more sedentary lifestyle. After work, instead of exercising, people prefer to go home, sit on the couch and watch television. Watching television is a very common habit for Brazilians, who are used to watching soap operas and football games in the evening.

b. Mexico

b.1) Mexican Consumers Go Back To Basics:

Before the economic crisis, most Mexican households experienced years of continuous growth in their purchasing power, arising from the combined effect of continuous growth in annual disposable income and the fact that the number of occupants per household was decreasing. With more disposable income, Mexicans increased their overall consumption of basic goods and items considered to be non-necessary such as clothing and footwear, household appliances and consumer electronics, catering services, holiday packages and other leisure and recreational goods and services.

However, the economic downturn resulted in a fall in the income of the majority of the population, mainly due to high unemployment and sub-employment rates, an increase in personal income tax and value-added taxes and rising prices of products due to high levels of inflation and the peso devaluation.

b.2) High-interest Credit Allows Poor Mexicans To Purchase Big Ticket Items:

Un-banked and low-income Mexicans have historically been marginalized in consumer finance and denied access to credit options. As a result, most un-banked Mexicans have been unable to purchase big ticket items such as household appliances, in-house consumer electronics, furniture and vehicles, or they had to wait until they were able to save enough money to pay cash for such purchases. The un-banked population is considerable and made up largely of low-income earners. It is estimated that at least 65% of the Mexican population is still lacking access to financial services and 60% have low income levels.

b.3) More Women Joining the Workforce Increases Purchasing Power:

In recent years, an increasing proportion of women have joined the workforce, looking to increase their family's quality of life. Thus, the number of women in the labor force went from 14.7 million in 2005 to 16.3 million in 2009, a growth of 10.4%. But although the number of women joining the workforce is growing, in 2009, employed women only accounted for 35% of the total employed population.

Participation in the labor force is influenced both by the educational level and the family's and household's profile. For example, only 45% of women holding a junior high-school diploma or less are part of the workforce, while 62% of women holding a senior high-school diploma or more are employed. In past decades, women were less educated than their male counterparts; however, in recent years, the gap has reduced dramatically. Even so, women earn less than men. The INEGI estimates that, on average, women earned 6.2% less than their male counterparts for performing the same type of jobs in 2008, and that in some positions, such as industrial managers, women earned 40.3% less than their male colleagues.

Marriage and having children is limiting the ability and desire of Mexican women to work. For example, while 73% of Mexican divorced females and 46% of single women worked in 2008, only 38% of married women worked. However, the number of working single mothers has increased to 66%, due to economic pressures and despite the fact that many single mothers have said that they would like to spend more time with their children. One of the reasons why many women stop working when they get married and have children is that they have to invest a large amount of their time in domestic activities and bringing up their children.

b.4) Obesity Crisis Pushes Up Sales of Health Products:

In Mexico, in 2009, it was estimated that around 40.5% of the population aged 15 or above was overweight and another 31.8% was obese. Mexico has the highest proportion of overweight and obese children in the world. According to the IMSS, the situation is so severe that it is no longer uncommon to see patients aged 18-30 already suffering from heart attacks due to their obesity and one in three Mexicans is a candidate for a gastric bypass procedure. While some wealthier segments of the population are more health-conscious, obesity is now spread across all income segments of the population.

In recent years, the government has promoted the consumption of fresh food, as the best measure for combating overweight and obesity, and has highlighted the need for regular physical activity, with programs such as "Activate, Vive Mejor" or "Exercise, live better". However, as these programs seem to be unsuccessful, the government has been forced to take action, such as requiring a mandatory 30-minute slot every day allocated to physical activity in all the elementary schools and banning the sale of unhealthy food in the area surrounding all public schools in the country.

b.5) Universal Healthcare Initiatives Bring Insurance Coverage To Those Who Need It:

In recent years, Mexico has taken major steps towards achieving universal health care coverage for all Mexican citizens. However, according to the most recent statistics from the Instituto Mexicano del Seguro Social (IMSS), or Mexican Social Security Institute, around 46% of the population still did not have any type of health coverage in 2009, in particular those living in poverty in rural areas. In 2009, the government announced that it would continue to make significant financial investments in healthcare programs, with the goal of providing universal healthcare to all Mexicans in the next decade and to reduce current inefficiencies in the existing fragmented public health system.

In order to offer healthcare to those Mexicans who most need it, the government introduced the Seguro Popular, a public institution which provides universal healthcare coverage to all Mexican citizens who do not have any other type of healthcare coverage, at no or very little cost. The Seguro Popular is free for the poorest segments of the population and could cost up to nearly

Mx\$11,400 per year, per family. In addition, in 2006, the government created the “Seguro Medico para una Nueva Generación” or “health insurance for a new generation”, which is part of the Seguro Popular and provides free universal healthcare coverage to all babies born in families who have financial problems. Similarly, in 2009, the government created the “Embarazo Saludable” Program or “healthy pregnancy” which provides free medical attention to poor pregnant women without healthcare coverage during their pregnancy and delivery of their babies.

c. Argentina

c.1) Older Working Population Changes Consumer Demand:

While many Latin American countries still have demographic patterns typical of the developing world – high birth rates, low life expectancy, a young population – Argentina is well on its way to having completed an advanced demographic transition. Population growth rates are below 1%, households are smaller, and the population is ageing. Argentina’s population reached 39.9 million by the end of 2008, with an annual growth rate of 1% during 2003–2008, lower than the regional mean of 1.3%. This has considerable implications for consumer spending as important demographic groups either decrease or increase in numbers.

In the long term, and as is the trend in many developed countries, Argentina’s ageing population will lead to unprecedented pressures being put on the country’s healthcare and state pension systems. The pension system was renationalized in 2008.

c.2) Global Financial Crisis and Poor Economic Management Causes Drop in Consumer Spending:

The economic recovery in Argentina since the 2001–2002 crisis has come in no small part on the back of growing consumer confidence and the subsequent growth in consumer spending. In the recovery years, consumer expenditure grew with a CAGR of over 10.5% in 2002–2008. However, with the onset of the global financial crisis and accusations of economic mismanagement against the Argentinean government, the economy has entered a recession. It is not forecast to return to economic growth until the first quarter of 2010. After five years of consecutive growth, this downturn is likely to have sobering effect on both consumer confidence and spending.

A further sign of the hard times that await Argentina’s economy due to the global financial crisis is the drop-off in foreign direct investment. But FDI flows into Argentina have been severely affected by the drop in available funding as much as by the unfavorable business environment evident in Argentina. The nationalization of the pension system in 2008, in particular, has created a negative opinion amongst international businesses. Additionally, Argentina is still legally unable to tap into the international capital markets and therefore will be even worse off as a result of the lack of FDI.

c.3) Higher Food Prices Force Argentinean Consumers To Change Spending Habits:

With its ideal climate, rich soil, and vast expanses of arable land, Argentina is often referred to as the breadbasket of South America, and is one of the world’s major agricultural exporters. That the country, with an economic history steeped in the agricultural production of wheat and beef, should be on the verge of having to import these products is an indication of the crisis currently facing the Argentinean agricultural sector. A protracted drought in the Southern

Cone, the worst in over 50 years, and a substantial drop in wheat prices – as well as a fierce confrontation between farmers and the government over export taxes on agricultural products – have coincided to bring about the worst agricultural crisis in a generation with the volume of produce reaching record lows. The 2008 wheat crop weighed 47% less than the previous year and was worth 61% less. The beef sector fared no better, as Argentina exported in 2008, for the first time in its history, less beef than its tiny neighbor Uruguay. The ongoing dispute between farmers and the government is over the implementation of further tax increases on Argentina's productive agricultural export sector. The government introduced the tax increases as a means not only to reap additional revenue from the record high food prices seen in mid-2008, but also as a measure to help stabilize food prices at home by encouraging farmers to sell to the domestic market. In response, farmers contend that the export taxes have made them less competitive globally.

As a result of the crisis, many farmers are choosing to forsake traditional beef and dairy production for more lucrative and less labor-intensive soy bean production. This change in farming trends, as well as the dramatic decline in local agricultural produce, has a negative knock-on impact for consumers, as shortages lead to rising prices for staple products, such as beef, dairy products and eggs. Supermarket shelves have, at times, stood half-bare as staged road blockades and protests by farmers have disrupted food distribution. With food-associated costs on the rise, this not only affects what types of food consumers are choosing to buy, but also has a negative impact on the available money left to spend on other products.

c.4) Energy Efficiency Legislation – Consumers Think Green:

The ongoing energy crisis, a result of years of underinvestment in Argentina's energy sector, has forced the government to introduce a number of measures to foster energy efficiency, including measures which have promoted the consumption of energy-efficient household appliances.

In 2008, the President launched an energy saving plan known as the National Program for the Rational and Efficient Use of Energy (PRONUREE) to counter the supply/demand imbalance by increasing energy efficiency. Through educational programs, PRONUREE would encourage a change in individual behavior with regards to energy usage; the government stated that it would take the lead in this behavioral change by reducing energy usage in all public sector buildings. Other initial measures include: introduction of daylight saving time from January to March, a national program to phase out incandescent bulbs by 2011, and an extension of credit schemes for consumers wishing to purchase energy-efficient domestic electric appliances.

c.5) Tourism Boom Upset by Recession, Swine Flu and Airline Chaos:

Since the devaluation of the peso in 2002, Argentina's tourism industry has proved to be one of the country's most dynamic sectors, accounting for 8% of GDP, bringing annually about US\$4 billion to the economy and providing one of the country's leading sources of foreign exchange.

Despite these positive developments, the boom period is set to hit the wall. The global recession has forced both foreigners and locals to re-evaluate their holiday plans, curbing tourist numbers and receipts. The outbreak of swine flu in 2009 hit Argentina harder than any of its neighbors, with the subsequent negative news coverage further damaging international tourism inflows. In addition, travel and tourism infrastructure, despite recent investments, remains inadequate to deal with further rises in tourist numbers, hindering the potential development of the industry.

One of the major infrastructure shortcomings has been the deteriorating state of the aviation industry, which has resulted in severe delays; airport chaos has become almost the hallmark of domestic airports.

d. Colombia

d.1) Women Participation:

Since 1995, the proportion of women in the Colombian population has been growing. This trend is the result of several factors, among them the fact that women have become more aware than men of the benefits of healthy lifestyles and they are more likely to have adequate diets and regular exercise routines. At the same time, another important trend has emerged, and that is the transformation of women's role in Colombian society. An increased education opportunity, especially at the secondary and university levels, has led to an increased number of women entering the labor market. This, in turn, has encouraged the growing participation of women in virtually every aspect of Colombian life, from politics and economics to social affairs and literature. Combined with greater economic independence, this has resulted in significant changes in the ways many Colombian women behave as consumers.

d.2) Urbanization:

Colombia has experienced large-scale internal migration in recent decades, which has given rise to an accelerated urbanization process. As a result, in 2008 rural households constituted only 23.54% of the national total, while the percentage of households in the urban sector had risen to 76.46%. This represents a total increase of just over 54% in the number of urban households from 1995 to 2008.

The phenomenon of urbanization in Colombia has been driven by two main factors. First, the important industrial, commercial and educational developments taking place in cities such as Bogotá, Medellín, Cali, Barranquilla and Bucaramanga have encouraged migration of low-skilled workers and peasants to these places, in search of livelihoods that the rural and agricultural sectors can no longer provide. Second, Colombia's violent internal conflict has caused the displacement of large segments of the population towards towns and cities.

The major cities and their metropolitan areas in Colombia have been the focus of this urban expansion. For instance, according to the 2005 population census, more than 7.9 million Colombians inhabited the metropolitan area of Bogotá. However, such growth is not homogenous and most big urban centers display large social and economic inequalities.

d.3) Ageing population:

Child mortality, death and fertility rates have been steadily declining in Colombia in recent years, and the bulk of the Colombian population is growing older. Additionally, the average age at which men and women get married has been increasing.

Colombia has traditionally been a country populated by younger people, but the general trend in 2009 is that the number of elderly people is growing faster than the younger segments of the population. According to the National Department of Statistics (DANE), by 2020 the segment of

the population below 15 years of age will have decreased by 17.5%, whereas the segment above 65 years old will have increased by over 35%.

d.4) Better Education:

Colombia's overall spending on education rose by 143.9% from 1995 to 2008. Government policies and programs such as the Ten Year Education Plan ("Plan Decenal de Educación"), which first ran from 1995 to 2005 and is now approaching the midway point of its 2006 to 2016 period, have contributed enormously to such growth. The plan aims to offer high-quality education, with a focus on IT and research skills to international standards, to all Colombians.

There is an increasing awareness among citizens from all segments and income brackets of the importance of education as one of the basic tools for social and economic development. Therefore, both the government and individual households are expected to increase their future expenditure on education and related items, especially in relation to tertiary education.

d.5) Technology and Communication:

Colombia has made important advances in the fields of technology and communication in recent decades. From 1995 to 2008, total communication expenditure by Colombians grew by 175.1%. The most significant increases were in spending on telecommunication equipment and services. Internet users expanded by 24,866%, while the percentage of households with a computer increased from 2.8% to 21%. However, the most spectacular growth was in the mobile phone sector. By March 2009, 41.3 million Colombians were users of mobile phone services, whereas in 1995 less than 275,000 had mobile phone subscriptions.

e. Chile

e.1) Consumer Confidence Grows As Chileans Look Past Natural and Man-made Disasters:

Chile has faced a few shocks to its system lately. The recent earthquake was responsible for a loss of nearly US\$1 billion. Besides the more than 500 deaths and the projected US\$2 billion it will cost to rebuild the damaged country, the devastating earthquake exposed the country's poverty and how millions of Chileans live unprotected. Prior to this, the global economic downturn struck the Chilean economy and it officially fell into recession. Sectors affected included fishing, industrial production and commerce. Now, however, most indicators reveal that the Chilean economy is rebounding and back on its growth track and consumers are breathing a sigh of relief. There has been increased activity in the mining, retail and energy sectors, according to the Chilean central bank.

It is expected that the Chilean economy will recover relatively quickly from the lingering effects of the global economic downturn but it might take longer to recover from the recent devastating earthquake. On the other hand, the recovery will be driven in part by increases in construction and manufacturing related to post-quake reconstruction. The unemployment rate has also benefited from post-quake reconstruction. Overall, as the country rebounds from the recent disasters it has faced, consumer confidence and, in turn, consumer spending will rise.

e.2) Aging of the Chilean Population Influences Consumer Spending:

As is the case in most Western countries, Chile's population is ageing. The number of Chileans aged 65 years and older grew by 15.4%, reaching 1.5 million in 2009 and representing 7.6% of the total population. For the most part, the ageing of the population has been the result of declining birth rates and rising life expectancies. The measure of healthy life expectancy in Chile increased from 68.1 years in 2005 to 69.3 years in 2009. Measured another way, the ageing of the population can be seen in the increasing median age of Chileans, which increased from 30.5 years in 2005 to 31.7 years in 2009.

People are living longer for a number of reasons, including better access to health and medical services, medical advances and overall higher standards of living. Greater health awareness has led to increased consumer demand for products and services that promise to treat and prevent illness and maladies.

e.3) Obesity Rate Skyrockets As Consumers Eat More and Exercise Less:

The number of Chileans classified as overweight and obese increased dramatically. In 2005, 40.5% of the population aged 15 years and older were considered overweight and that increased to 44.7% of the population in 2009; in 2005, 23.6% of the population were considered obese and that increased to nearly 26% in 2009.

A recent article in GlobalPost said that many observers blamed the recent arrival-since 1990 and the end of the military dictatorship-of international fast food chains such as McDonald's, Kentucky Fried Chicken, Burger King and Domino's Pizza for the deteriorating Chilean diet and Chileans' massive accumulative weight gain. "However," the article noted, "Chileans' changing eating habits appear to be more of a problem than the proliferation of McDonald's. Along with the fast food outlets came major supermarkets with a greater variety of cheap processed foods. And higher incomes meant more money to spend." Certainly, as they stroll down grocery aisles, Chilean consumers are buying more and, in turn, eating more fatty, processed and prepared meals at home. Indeed, consumers eat non-nutritious meals as often, if not more often, at home as they eat at fast food restaurants.

e.4) Growing Urbanization Affects Consumer Markets:

The number of Chileans living in urban areas increased by 5.5%, reaching more than 15 million in 2009. Urban dwellers accounted for nearly 89% of the total population in Chile in 2009. Over the same period, the number of rural dwellers declined by 5.6%, reaching 1.9 million in 2009. Clearly, there is a trend of Chileans moving to urban areas, whether it be for job opportunities, educational opportunities or other benefits.

There are significant differences between the typical consumer habits of urban dwellers and rural dwellers. To start with, urban dwellers usually have higher levels of disposable income and can, therefore, spend more on consumer goods and with their wide range of stores and retail outlets, urban areas provide consumers with more choice. The urban lifestyle is also faster paced and this is reflected in many of the decisions consumers make. Relatively time-poor, many urban dwellers seek convenience and time savings regardless of the price. This is particularly true in the choice of food. Rather than spend the time to prepare meals from scratch, many urban dwellers prefer to put ready-to-eat meals in the microwave or heat up (rather than cook) packaged foods.

Urban Chileans are also more likely to go out for entertainment. Restaurants, pubs, clubs and entertainment venues are more plentiful and more popular in urban areas and urban consumers spend much more in these places than their rural counterparts. At the same time, while they are visiting these venues, many urban dwellers want to be seen at their best, driving demand for fashionable branded clothing and footwear and cosmetics and toiletries.

e.5) Mobile Phones "absolutely Essential" To Chilean Consumers:

The greatest growth in consumer expenditure was in the communication segment, which increased by nearly 30% (in real terms) to just under CLP\$2.9 billion in 2009. In part, growth was driven by the popularity of mobile phones. In 2009, 83.7% of Chilean households possessed mobile phones, up from 70.8% in 2005. In 2007, a study revealed that more than 80% of Chilean consumers are convinced that mobile phones "changed their lives" and 93.4% consider mobile phone technology to be an "indispensable element" of their professional and personal relationships. Chileans believe that owning a mobile phone is "absolutely essential." In 2009, the biggest brand shares were held by Sony Ericsson (27.6%), Nokia (26%) and Samsung (12.3%). The primary operators in the mobile telephony sector in 2009 were Movistar (Telefonica's mobile network operator, with a 42.9% market share), Entel PCS (38.5%) and Claro (18.5%).

The number of subscription contracts (rather than pre-paid options) is relatively high and is growing. In 2008, more than 27% of mobile users were on subscription contracts compared to 20.7% in 2003 (and compared to 10.5% in neighboring Argentina).

f. Peru

f.1) Increasing Disposable Income Affects Consumption:

In spite of the financial crisis and the effects of a global recession, Peru's economy has at least continued to grow since the downturn in mid-2008. In recent years, Peru has experienced one of the highest growth rates in Latin America. This was stimulated by heavy investment in the mining and minerals sectors, which has had some positive knock-on effects in other sectors, notably in construction. The impact of the global downturn has so far been fairly modest in terms of consumer power, and the economy is likely to post a significantly higher growth rate in 2010. Overall, apart from 2009, gross domestic product (GDP) per capita and therefore average disposable incomes have tended to increase, although the benefits of growth have tended to be concentrated geographically in the coastal area where GDP per capita is already significantly higher than elsewhere. The increase in disposable incomes has led to increased consumption but reduced domestic savings, which are likely to have long-term implications for growth and consumption in the country.

Despite its impressive growth rate in recent years and a fall in poverty rates, Peru remains a highly unequal society and consumption patterns vary enormously from one social sector to another. In addition, it should be remembered that much economic activity in Peru is off-limits (contraband, coca agriculture and drug manufacture). These are activities that provide income to substantial parts of the population. Consumption levels therefore frequently exceed what one would expect from the official data on incomes. There are high levels of consumption in seemingly poor neighborhoods that are considerably above what people's social status would suggest.

f.2) Peru's Ageing Population:

Although still young in its demographic composition, Peru's population is showing signs of ageing. This is because the birth rate continues to fall and life expectancy increases. Today, those who belong to the 'baby boom' of the 1970s and 1980s are in their 30s and 40s. These are the age groups that form the largest proportions of the population. This is also the age category where pensions, investments and insurance begin to be of greater importance. Peru's dependency ratio is thus falling as a higher proportion of the population is of working age. It is the middle-aged and 60+ population which, as a segment, is growing fastest relative to other segments. These are the age groups of senior working positions and/or leading to retirement. Their consumption patterns tend to be related mainly to looking after their extended families. They also have a tendency to be more conservative in their spending and lifestyle habits. Consumption patterns are already shifting accordingly. The dependency ratio will begin to tilt to show the number of elderly relatives per household which they assist in supporting, a trend that will continue as the forecast period progresses.

f.3) Improving Education Levels Create Social Mobility:

Standards in Peru for primary education are improving. The level of attainment and level of investment that families put into their children's education in the country reflects their perception of education as the key to upward social mobility. Education and literacy levels will improve further over the forecast period. This has been one of the rallying calls of the present Alan García Government. At the national macroeconomic level, education plays an important role in harnessing greater levels of investment and productivity as an educated and more highly skilled workforce is required if expansion into higher-skilled forms of production is to take place.

The ability of parents to pay for education and extra-curricular tutoring shows that it is a clear priority for most households. This is likely to increase even more as the effects of the global recession begin to ease. Policy now needs to be focused at the local level on increasing the training and resources available in overcrowded state schools. The educational system will remain highly stratified according to social status, with most wealthy Peruvians sending their children to private schools and universities where attainment levels will continue to be much higher. Low-income groups, meanwhile, will have little alternative but to use the underfunded state education system where drop-out rates are high. However, little by little, there will be improvements in educational attainment and there has already been a big fall in illiteracy rates. Continued urbanization will itself help raise the number of people attending school.

An increasing number of people will attend university and other tertiary educational institutions, given their greater awareness that higher education is one of the surer routes to upwards social mobility. This will lead to the upgrading of skills in the job market, although a mismatch between academic qualifications and employment opportunities may lead to significant graduate unemployment. The popularity of night schools and vocationally-oriented courses at university level will open the way for many to jobs that provide higher incomes.

f.4) Urbanization Influences Consumer Expenditure:

Peruvian cities have undergone a massive expansion over the last 50 years. Urbanization alters consumption patterns of those who move from rural to urban areas. Peru can be described as primarily 'urban' and, although a proportion of people still live in rural environments in the highlands and jungle, their relative weight will continue to decrease further over the following

months. Increased climatic volatility is also likely to affect the demographic changes and the rural to urban migration. Water scarcity in the highlands promises to be a major issue. Lack of water will fuel greater migration. Climate change is increasing the risks faced by those populations involved in peasant agriculture, and recurrent phenomena such as droughts, excessive frosts, flooding, etc., will further accelerate migratory flows. These changes, combined with the increasing irregularity of weather systems such as El Niño and La Niña can play havoc with harvests.

The process of acculturation to the urban context among migrants is quite swift and this affects patterns of consumption. Peasant agriculture is still to a high degree an economy of subsistence where people produce largely for their own consumption and spend a relatively small proportion of their resources buying goods from outside. Life in the urban context is quite different, and whereas the proportion of income is much higher, families spend most of this purchasing the goods and services they require for survival. Urban life is more acquisitive and pressures to spend and consume are constant. Urban populations tend to have greater social aspirations, and many Peruvians tend to associate high consumption with a better lifestyle. This trend drives consumption patterns towards luxury and imported goods.

Since most households arriving in the cities are poor, food accounts for a high proportion of their disposable income. However, new migrants, often with the help of already urban-based family members, quickly become involved in house-building and construction activities. This is not always immediate because new migrants start off renting rooms or living with relatives. The continued rapid growth of both Lima (the capital) and provincial cities will boost demand over the forecast period for a range of basic consumer goods. However, it may also increase competition for vital resources such as water.

f.5) Increasing Levels of Home Ownership:

Overall, the number of people owning their own homes will continue to increase quite rapidly. This is primarily due to government-supported mortgage initiatives and the construction of affordable housing. For most sectors of the population, renting is not a long-term option. House prices have risen, especially in affluent areas of cities that are well serviced with good schools and amenities. Home ownership for many Peruvians is an investment in their future and represents a way of saving money and investing. Cultural values with respect to home ownership also make this an attractive option. For many Peruvians, owning one's own home is both socially desirable and – with the expansion of mortgage programs – economically viable.

Although most of those who migrate from rural areas begin living with relatives, or possibly renting accommodation, they soon want to establish their own homes. Usually this means purchasing a plot on the periphery of an urbanized area (where land is cheapest) and building their home there. Among higher-income earners, there is a desire, too, to escape rented accommodation and to acquire houses in the more affluent suburbs of cities. With real-estate prices rising in recent years, this is a form of investment. Higher security concerns mean that richer Peruvians want to live in gated communities, which provide both security and amenities to the residents. Residents want easy access to recreational and shopping facilities such as supermarkets. As the pressures of urban life grow, an increasing number of wealthy people will want to build second homes in rural areas within easy reach of the main urban centers. This is already the case for the coastal areas around Lima where many more affluent people own beach properties.

6. Development Strategy

a. International Expansion

(Creando Valor para los Consumidores Emergentes en Retailing, The Coca Cola Retailing Research Council Latin America, Booz Allen Hamilton, 2003)

(Retailing: Future Scenarios (Part 1). How Might Changing Market Environments Affect Growth In Emerging Regions?, Euromonitor International, 2011)

(Retail Global Expansion: A portfolio of opportunities, AT Kearny Global Retail Development Index, 2011)

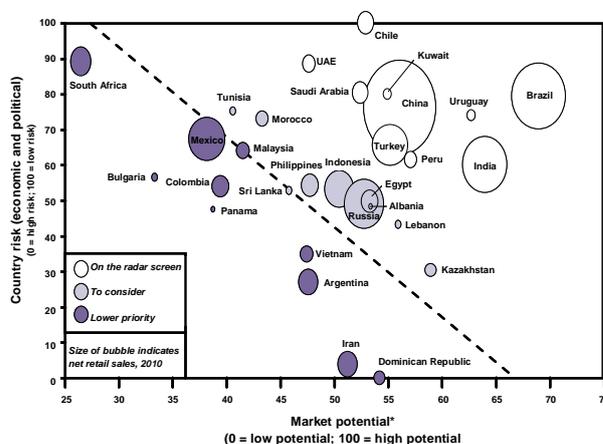
Retailers who do not want to wait for the theoretical effects and long-term an increase in general revenue “for stroke,” have several business options to consider. These options imply resolve several important issues. Select sub-emerging consumer segments and geographic areas and develop a distinctive value proposition based on a sustainable business model that can be replicated to extend the local network and gain scale.

The 2011 Global Retail Development Index (GRDI)TM reflects dramatic changes in the global economy and the different ways in which developing countries have been affected. Some developing markets have emerged from the recession stronger than before, while others succumbed to the political upheaval that economic distress brings. Today, as leading international retailers are rewarded for their flexibility and long-term outlook in the face of short-term uncertainty, it is time to focus on a portfolio of countries – with different levels of risk, at different stages of maturity and with distinct consumer profiles – to balance short and long-term opportunities.

Often eclipsed as a retail destination by Asia Pacific, the Latin American region is nevertheless forecast to see strong growth over the next five years. French grocery retail groups Casino and Carrefour have been present in the market for several years, while Wal-Mart built on its successes in Brazil, Mexico and Central America with the acquisition of the leading Chilean retail group D&S in 2009. More recently, GRDI saw Latin American markets surge to the top of the rankings, with Brazil in first place, followed by Uruguay and Chile.

Figure 6.1

2011 GRDI Country Attractiveness



Source: Retail Global Expansion: A portfolio of opportunities, AT Kearny Global Retail Development Index, 2011.

a.1) Brazil:

A GDP growth of close to 5% is expected through 2013, and preparations for the 2016 Olympic Games and 2014 FIFA World Cup are expected to generate more than \$50 billion in new investment. During the last eight years, GDP per capita has increased by a staggering 40%, and a growing and more affluent middle class has resulted in increased consumption.

As testament to Brazil's sizzle, retail investment is on the rise. Household appliance retail chain Magazine Luiza, Brazil's largest women's shoe retailer Arezzo, food services company International Meal and drug store Droga Raia had successful IPOs in the past six months. Most investors view Brazil as a relatively stable market compared to other developing economies, with a pro-business government that welcomes foreign investment. Major real estate investments have also driven retail growth. Shopping malls, which account for one-fifth of retail sales, have exploded, with 16 openings in 2010, 25 in 2011 and 30 planned for 2012. More than half have been heavily concentrated in the southeast region, signaling a future opportunity for additional real estate development in the north and east.

Those investments are attracting an influx of foreign capital and major international chains. The UK's Debenhams plans to enter through a partnership or brand licensing, while Burberry entered Brazil in 2010 and now operates two stores. Based on media reports, other possible entrants in the next few years include Sweden's H&M, Japan's Uniqlo and the UK's Topshop. The main barrier for foreign apparel companies is the seasonal differences between the northern and southern hemispheres and high import taxes. Partnerships with local producers have helped address the latter problem, but these can take time to set up and require greater oversight.

Chile-based retailer Cencosud, Mexican beverage company FEMSA and French cosmetics giant L'Oréal have operated in Brazil for years, but now plan to expand via acquisitions to strengthen their positions against new entrants. Cencosud is planning to enter markets where it does not currently operate to compete with larger chains such as local leader Pão de Açúcar and Carrefour. Competing in Brazil is not easy for foreign retailers, as the major hypermarket players have found. Early in 2011, Carrefour announced a \$722 million loss due to accounting adjustments, while Walmart has faced resistance from local associations due to its aggressive pricing. Drug stores are facing intensified competition after Droga Raia's IPO and the merger of Drogaria São Paulo and Drogão. Germany's Otto Group has recently announced plans to enter through a majority stake in one of its partner companies, in the hopes of replicating its mail-order success in Russia.

a.2) Mexico:

Mexico's economy recovered in 2009, highlighted by a GDP growth rate of 5.5%. Unemployment has decreased from a historical high of 5.9% in mid-2009 to 5.4%. The stronger economy has restored consumer confidence, reflected in retail sales growth.

Mexico remains an attractive destination for retailers due to its growing middle class, a retail sector that is expected to expand 12% by 2014 and a large population of 110.6 million. Current and new players are seeking to capture market share. The leading retail chains plan to increase their investments significantly, focused mostly on new compact hypermarket stores in tier 2 cities, given the saturation of tier 1 cities. Walmex is planning 365 new stores, while Soriana will open 50 and Chedraui 30. As Comercial Mexicana recovers from last year's bankruptcy, other domestic players are trying to capture additional market share.

Two formats are leading the retail expansion in Mexico. Top retailers, including Grupo Elektra, are targeting compact hypermarkets, low-cost “bare-bones” formats that target low-income consumers. Convenience stores are also expanding rapidly, with OXXO, Circulo K and 7-Eleven leading the way.

Given the grocery segment’s saturation, attention has shifted to specialty retail. US and European retailers are entering mostly through joint ventures or franchises; Sephora, Payless, ShoeSource and Luxottica are examples in the apparel and accessories segment. Alsea, Mexico’s leading fast-food operator, recently opened P.F. Chang’s and is experiencing accelerated growth. It plans to open 500 new locations across its brands over the next five years. A number of international retailers, such as Gap, Victoria’s Secret and CB2 entered the market through e-commerce. Critical to success in Mexico is the ability to secure desirable real estate and to offer credit facilities for low-income consumers.

a.3) Argentina:

Argentina experienced strong 9-plus percent GDP growth in 2010, but its rising inflation rates may be distorting this growth as it leads consumers to make advance purchases. The country of 40.5 million has not experienced significant changes in the inflow or outflow of foreign retailers, with Carrefour, Cencosud and Walmart still the leading international retailers in the country.

a.4) Colombia:

The country of 45.5 million was affected more deeply by the global economic downturn than some of its neighbors and has not fully recovered. The market is still dominated by small independent retailers, but operators such as Casino and Carrefour are using the hypermarket format to target middle-class customers. Inflation continues to be a concern, but new entrants have still moved in, including Sodimac, Cencosud, Inditex (Bershka, Stradivarius and Massimo Dutti) and Payless ShoeSource.

a.5) Chile:

Chile is now considered one of Latin America’s most competitive and promising retail markets. Chile’s retail sector is projected to grow 10% in 2011 as a result of increased middle-class purchasing power and a younger, urban population. Government incentives to stimulate retail consumption led to a 5.2% GDP growth in 2010 and an expected growth of 6.1% in 2011. However, these incentives will decrease throughout 2011, as the government continues to redirect spending to infrastructure development following the 2010 earthquake.

The nation of 17.1 million has a heavily concentrated market, with the top five grocery retailers commanding almost 60% of sales. As a result, entering this market is fairly difficult, and acquisition is the most viable route for the grocery sector. In 2011, in the apparel sector, Gap Inc. announced plans for its first South American store through a franchise partner in Santiago.

a.6) Peru:

Peru, with its population of 29.5 million, has experienced 5% year-over-year GDP growth for the past five years. As with most countries in this region, large cities drive economic activity, in this case the capital, Lima.

Strong retail growth has intensified the demand for retail space. Investments in commercial real estate will add 10 shopping malls to the current 15 by 2011, up to a total of 100 by 2015. Interbank acquired real estate firm Millenia – which owns four main locations of its direct competitor Metro – from Cencosud. Interbank also plans to complement its supermarket operations by integrating the recently acquired InkaFarma pharmacy chain.

Foreign retailers are investing heavily in Peru. Cencosud, which runs Peru's Wong chains, has received approval to create Banco Cencosud and also plans to create private label brands. It will also introduce its Paris brand in 2012 to compete with Chilean retailers Falabella and Ripley. Ripley is not standing still, though, as it plans to nearly double its store count by 2013. Subway, present in Peru during the 1990s, is planning to return with 10 stores in 2011. As marketplace competition grows, first movers may have the most success in Peru as they acquire the best locations in the highest-profile cities and offer complementary services, such as credit.

7. Financial Retail

a. Payment Options

(Breaking the myths on emerging consumers in retailing, D'Andrea, 2006)

(Financial Cards and Payments, Euromonitor International, 2010)

(Emerging Cities, BCG, 2010)

Other strong factors deter emerging consumers from switching away from small-scale stores – but the need for credit is not typically one of them. Some do take advantage of credit out of necessity on occasion, and consumers who rely on “fiado credit” do have strong barriers to switching stores. Generally speaking, lower-income segments are averse to spending beyond their means and they prefer to pay cash as a means of controlling expenditure. Credit is viewed as more appropriate for major purchases (e.g. appliances, back-to-school supplies and uniforms) rather than for funding day-to-day consumables.

That said, emerging consumers commonly “come up short” on small purchases and rely on their “virtual wallet” at small-scale retailers, who essentially offer a type of informal credit by allowing regular customers to make up these small differences on their next shopping trip – usually the next day or shortly thereafter.

This is a critical service for this group, since having to remove purchases at the time of payment is considered extremely embarrassing. Furthermore, it allows parents to send their children to make daily purchases with the least amount of money possible – considered a valuable means to control impulse spending on candy and snacks. Technically speaking, this is a form of short-term credit. But it is more like an extension of the personal relationship between the consumer and the shopkeeper, rather than a transaction or service. Also, since the amounts in question are extremely small, the benefit of this “virtual wallet” to consumers is one of financial flexibility rather than needing the credit per se.

Credit cards allow for purchases against a preapproved line of credit. The account holder has the choice of whether to pay off the entire balance or opt for monthly installments with the balance serving as revolving credit. Credit cards can include affinity cards, reward cards and types of co-branded cards. Co-branded retailer cards-issued by retailers acting as financial institutions and

without usage restrictions-are included in this category. Cards issued by a retailer with usage limited to a specific store within a predefined retail group fall into the store card category.

A store card (also known as a retailer or private label card) contains a “pay later” component similar to credit cards. However, store cards limit usage to purchases at specific stores within a predefined retail group. Credit cards issued by retailers acting as financial institutions and without usage restrictions fall into the credit card category.

Although their average income levels are much lower than those of their counterparts in developed markets, most of the residents of emerging-market cities were saving a very significant portion of their incomes for the future. In some cities, however, residents expressed frustration regarding a lack of consumer financial services. Nonetheless, consumer finance in emerging-market cities is expected to reach \$10 trillion by 2030. Cities with populations of less than 5 million will account for a significant share of this growth, including the majority of mortgage and auto loans and slightly less than half of personal loans.

b. Retailer Credit Cards

(Financial Cards and Payments, Euromonitor International, 2010)

b.1) Brazil:

Improved economic conditions combined with increased access to credit and extended payment plans, enabled low-income groups to enter the consumer market. For instance, with the minimum wage increasing 50% from 2004, almost 20 million Brazilians have stepped out of poverty and entered the market in the past three years.

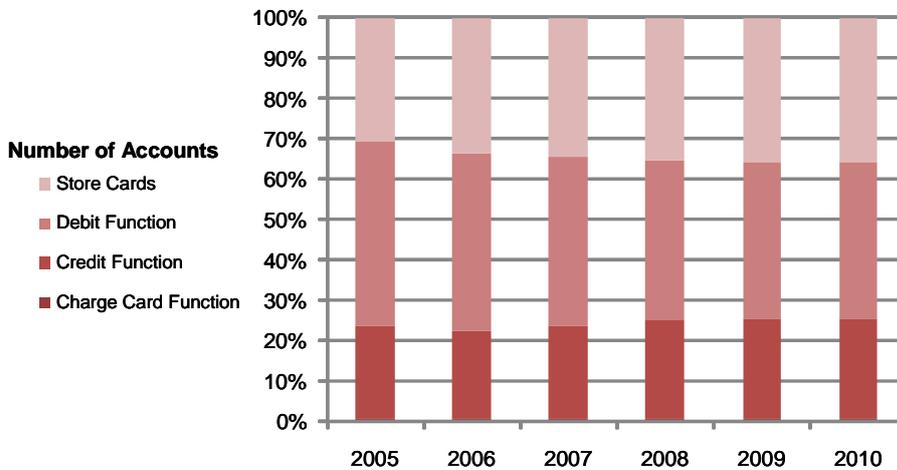
Lower-income families already spend more than upper income ones. According to research conducted by the agency Data Popular, specialized in lower-income consumers, families from classes C and D are expected to consume more than R\$800 billion in 2010, compared to R\$550 billion from classes A and B.

Approximately 82% of the financial cards in circulation belong to consumers from classes C, D and E. According to the market research institute Data Popular, 59% of class C men are credit cardholders and 62% of class C women.

The Brazilian acquiring business has been dominated by two companies, namely: Redecard and Cielo. Both companies enjoyed exclusivity contracts to acquire for MasterCard and Visa, leaving no open doors to competition. Directives from the Central Bank stated that from 1 July 2010, such exclusivity contracts are no longer valid and the acquiring market is now open to other companies besides Redecard and Cielo. This new state of affairs presents opportunities for banks, regional card companies and retailers to start acquiring. Banco Santander, in partnership with the Brazilian card processor GetNet, has already started acquiring for Visa, MasterCard and other regional card brands. For Santander, the new business opportunity provides a way to develop business relationships with retailers and to close other financial deals besides acquiring. Large banks as well as large retailers stand as potential candidates for competing in acquiring.

Figure 7.1

Credit Card Market and main Store Cards in Brazil



BRAZIL: Payment Transaction Value by Issuer (R\$ million)

	2005	2006	2007	2008	2009
C&A Model Brenninkmeijer	2,731	3,038	3,441	4,715	5,458
Banco Panamericano	3,269	3,106	3,454	3,871	4,585
Carrefour	2,291	2,715	3,126	3,847	4,447
Guararapes Confeccoes	2,089	2,463	2,901	3,247	3,815
Casas Pernambucanas	1,749	2,117	2,469	3,041	3,544
JC Penney	1,430	1,774	2,356	2,626	3,032
Marisa Lojas Varejista	991	1,301	1,684	1,952	2,182
Pão de Açúcar	657	852	1,053	1,298	1,499
União de Lojas Leader	464	552	677	812	958
Grupo Deib Otoch	365	396	425	585	675
Wal-Mart	347	427	484	582	672
Others	3,336	4,860	8,480	9,025	11,889
Total	19,719	23,600	30,550	35,600	42,756

Source: Financial Cards and Payments - Brazil, Euromonitor International, 2010. *Store Cards Transactions - Brazil, Euromonitor International, 2010.*

b.2) Mexico:

Consumer finance can considerably increase its customer base by targeting the wide non-banked population in the country. There are several new players targeting this segment that entered in 2007 and are now increasing their share. Their main strategy is to increase geographic coverage, aiming to reach some of the territory that lacks financial infrastructure in order to provide financial services. These new players are mostly retail stores that benefit from brand recognition and broad infrastructure.

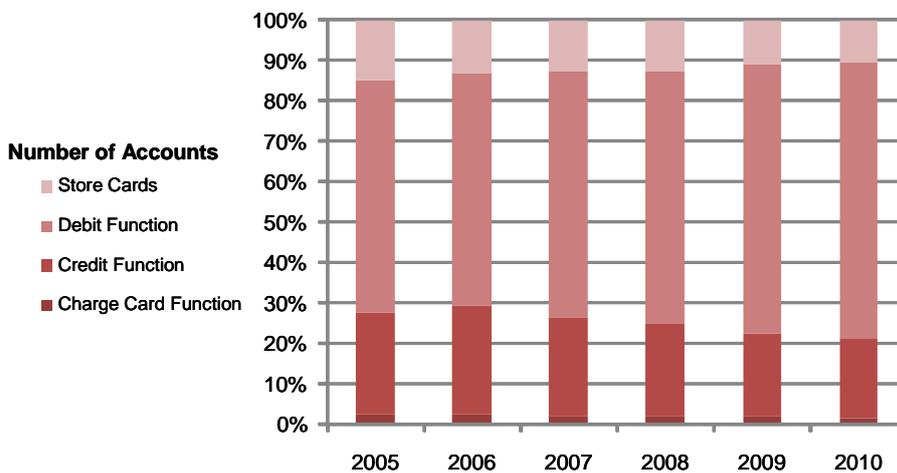
The financial cards and payments environment has obtained positive results by offering customer loyalty programs and more integrated systems. Customers have proven themselves to be fond of these promotions, and industry players have responded by improving their offer. This trend is very popular among credit cards, but also debit cards, mostly premium cards. For

example, Citibank (Banamex) offers its clients exclusive pre-sales availability of event tickets, which is highly appreciated by customers. Moreover, this bank issues a credit card in alliance with Inditex Group (clothing and footwear retailer) which allows customers to obtain discounts and other benefits at the group's stores, which include Zara, Oysho, Bershka, Pull and Bear and Massimo Dutti.

The shortage of banking penetration among many geographic regions in the country has been identified and acknowledged by several financial institutions and retailers which are now addressing this segment in order to increase their customer base. For example, Banco Azteca, Banco Wal-Mart, Almacenes Coppel and Famsa - Fabricantes Muebleros are well-known retailers (variety stores, department stores). Its ample consumer base and the deregulation policies implemented by the Central Bank have allowed them to enter the credit system, targeting low-income and/or informal consumers.

Figure 7.2

Credit Card Market and main Store Cards in Mexico



MEXICO: Payment Transaction Value by Issuer (MX\$ million)

	2005	2006	2007	2008	2009
Almacenes Coppel	9,388	10,442	12,155	13,438	16,042
Puerto de Liverpool	10,119	12,024	14,300	14,228	20,418
Palacio de Hierro	4,441	5,000	5,792	6,561	5,907
Banco Bilbao Viscaya (BBVA)	5,621	6,961	8,580	7,905	7,657
Sears	5,059	5,696	6,435	6,324	5,469
Famsa	3,317	3,987	4,648	5,533	5,104
Wal-Mart	-	-	-	-	510
General Electric	135	152	172	387	379
Others	3,765	3,935	5,022	6,207	5,239
Total	41,844	48,197	57,102	60,582	66,725

Source: Financial Cards and Payments - Mexico, Euromonitor International, 2010. *Store Cards Transactions - Mexico, Euromonitor International, 2010.*

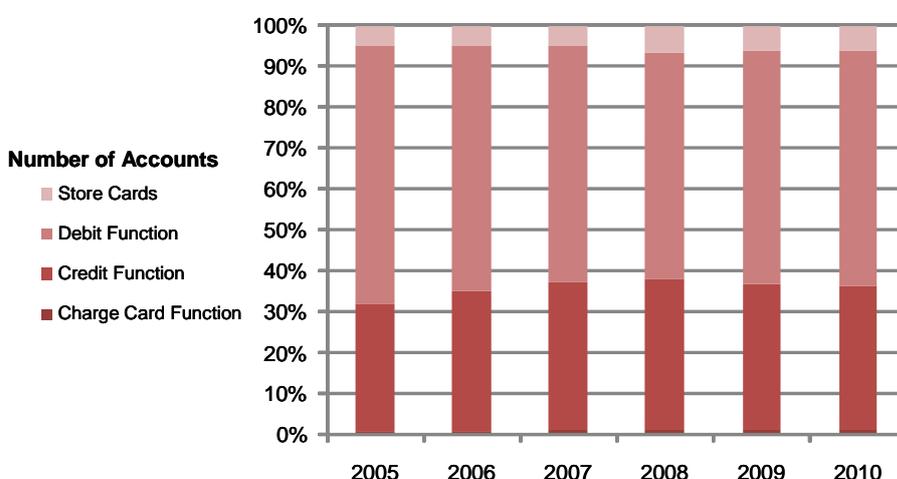
b.3) Argentina:

Banks and retailers, far from ceasing to develop promotions during 2010, have continued offering discounts in supermarkets/hypermarkets, restaurants, tourism services, clothes, etc. For each season, banks and retailers create different promotions; for example, during the summer, discounts moved to tourist resorts and were focused on restaurants, services on the beach, hotels, etc; in March, with the return of children to school, hypermarkets focused discounts on products for them. Through the year, discounts in supermarkets/hypermarkets to buy food have been maintained throughout the country.

In June 2009 C&A Brenninkmeijer & Co, the Dutch clothing retailer, announced the closure of its operation in Argentina after 12 years in the country. With a nearly 24% share of store cards in circulation in 2008, the company had led the store card sector since 2001. Store cards issuers such as Cencosud, Banco de Servicios Financieros and Megatone are expected to continue growing. C&A was the unique issuer in the clothing industry whilst the rest of the store card issuers are hypermarkets/supermarkets and domestic electrical appliances stores. Hypermarkets/supermarkets have shown the best consumption performance in recent years, even during the economic crisis, while domestic electrical appliances stores are expected to have better sales in 2010 than in 2009, mainly due to sales of LCD TV sets during a World Football (Soccer) Cup year.

Figure 7.3

Credit Card Market and main Store Cards in Argentina



ARGENTINA: Payment Transaction Value by Issuer (ARS million)

	2005	2006	2007	2008	2009
Cencosud	-	-	483	1,013	1,721
Banco de Servicios Financieros	219	372	587	891	1,574
Red Megatone	149	239	321	629	907
Frávega	213	335	288	366	787
Coto CICSA	150	238	205	360	529
C&A Model Brenninkmeijer	277	408	514	832	-
Others	192	221	-	0	222
Total	1,200	1,812	2,398	4,091	5,740

Store Cards Transactions – Argentina, Euromonitor International, 2010.

b.4) Colombia:

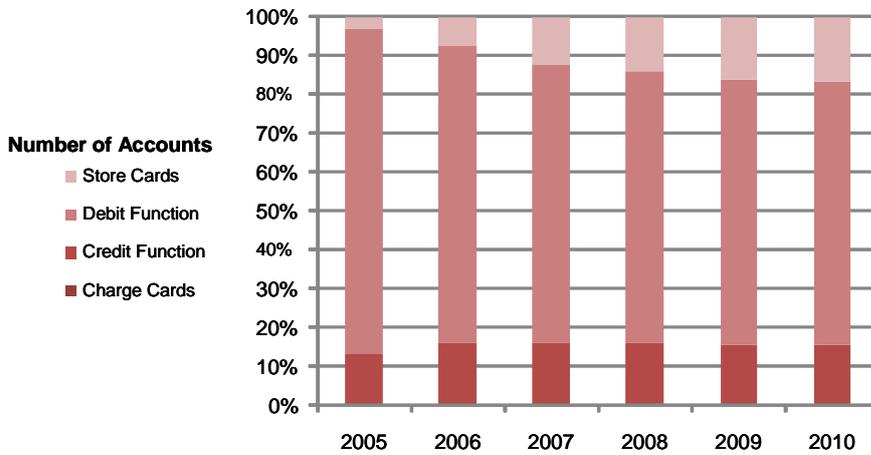
BanColombia has the largest presence in retailers and is largely responsible for the “Bank at the Retailer” trend. Almacenes Exito and other major retailers do not have exclusive agreements with certain banks and thus are more interested in filling their clients’ needs in one centralized location. For example, Tuya, a company from the BanColombia group, manages Almacenes Exito’s store card, and BanColombia is the largest bank at the retailer. Red Multibanca Colpatría (Multibanca Colpatría) offices can be found in nearly all of the Carrefour retail outlets. Multibanca Colpatría also manages the co-branded Carrefour card and the proximity of the bank office allows the bank and retailer to easily target potential consumers with discounts created to boost co-branded card owners’ consumption. The banking offices have unconventional operating hours to be available during peak purchasing hours. Consumers benefit from being able to conduct their banking needs whilst shopping.

The trend is expected to continue. Hypermarkets have acquired a strong share in the financial market through co-branded credit cards and store cards. Banks may be looking forward to entering that large channel to expand their service points through CNBs, taking advantage of the massive traffic they attract. Additionally, retailers such as Almacenes Exito claim that more than 70% of their store card client base recently joined the banked population or is low income. Currently more than 40% of the Colombian population remains unbanked and has recently become an important target for financial players.

Credit cards have not displaced store cards in Colombia, as the latter are increasingly covering the needs of the many new cardholders. Furthermore, potential banks such as CMR Falabella are expected to continue offering store cards as well as co-branded credit cards. This demonstrates that store card transactions and number of cards are expected to see continued growth over the forecast period. The store card phenomenon is closely related to the expansion of major retailers such as Carrefour, Almacenes Exito and Falabella as well as newcomers such as La Polar from Chile. A key factor driving store cards is that in most cases, no management fee is charged unless the card is used. An increasing number of consumers are expected to keep such cards as a means to deal with financial emergencies or other obstacles. New cardholders may migrate to traditional credit cards whilst others will keep their store cards and look to acquire a second, more widely accepted card.

Figure 7.4

Credit Card Market and main Store Cards in Colombia



COLOMBIA: Payment Transaction Value by Issuer (Col\$ billion)

	2005	2006	2007	2008	2009
BanColombia	150	385	375	701	1,293
Grupo Char	45	20	22	128	502
Red Multibanca Colpatría	-	-	-	-	350
Falabella	18	111	125	207	327
Colsubsidio	-	-	8	29	24
Caja Compensación Familiar	-	17	28	20	19
Compensar	-	-	2	17	14
Banco Davivienda	-	127	130	24	3
BanSuperior	87	-	-	-	-
Codensa	-	86	152	345	-
Others	-	35	50	345	309
Total	300	781	891	1,817	2,841

Source: Financial Cards and Payments – Colombia, Euromonitor International, 2010. *Store Cards Transactions – Colombia, Euromonitor International, 2010*

b.5) Chile:

Credit cards from retailers like Promotora CMR Falabella SA, CAR SA and Cencosud Administradora de Tarjetas SA achieved high market shares in 2010 by giving credit to their customers with their own funds. This solution has resulted in the development of several store cards in the most popular retail stores. The success of this strategy was based on the softer lending conditions they apply compared to banks and the large unbanked segment in the country. These retailers have developed their own reward programs and maintained customer loyalty by offering significant discounts and promotions via card purchases.

Retailers are four of the top five credit card issuers in 2009, controlling 74% of the sector and approximately 48% of the credit card retail value. The major retail issuers are – CMR Falabella, Servicios y Administración de Créditos Comerciales Presto SA, Cencosud and Ripley Corp SA. Falabella has a strong competitive position, with wide geographic coverage and a high and stable proportion of active cards which allows it to segment its portfolio, develop new products and adjust its marketing strategy.

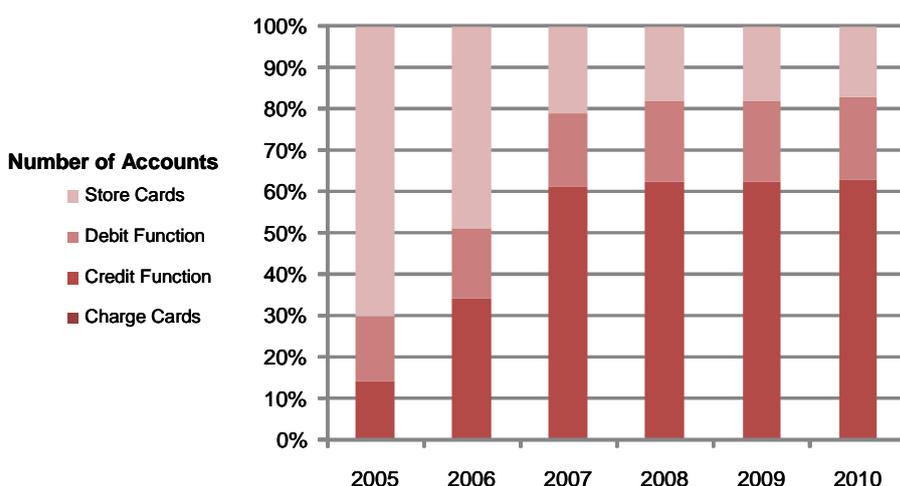
Retailers possess distinct advantages over banks. Outlet penetration is much higher, especially outside of urban areas, meaning that consumers are more familiar with retailers than banks. As Chilean consumers often visit a limited network of retailers for their shopping needs, additional banking services within those outlets are viewed as a convenient option. For retailers, their extensive knowledge of consumers' histories and shopping purchase allow more informed decisions when issuing credit cards and durable loans.

Given that issuers from the retail sector have middle – and low-income households as their target market, the expansion of retail outlets will lead to issuance of new cards, increasing their leadership position in the credit card sector.

Retail store card growth during the forecast period will also be supported by an unmatched smooth credit process, service from 08.00-22.00hrs and fast issuance and delivery. Another factor that will contribute to the continuing expansion of credit card issuance through retailers is the psychological association made by the customer between the goods that can be easily purchased and the credit card that will finance consumption.

Figure 7.5

Credit Card Market and main Store Cards in Chile



CHILE: Payment Transaction Value by Issuer (CLP\$ million)

	2005	2006	2007	2008	2009
Southern Cross	89,524	100,739	120,899	485,432	680,694
COFISA	32,829	41,571	59,790	94,612	87,409
Efectivo	46,805	58,344	70,422	137,867	62,859
ABC	10,869	17,066	24,563	35,060	20,216
C&A Tarjetas Extra	2,380	3,562	5,018	10,835	2,143
Falabella	1,024,855	984,043	-	-	-
Ripley	564,239	437,043	-	-	-
Cencosud	483,062	-	-	-	-
S&A Creditos Presto (D&S)	460,308	-	-	-	-
Others	0	0	0	0	0
Others	2,714,871	1,642,367	280,691	763,806	853,321

Source: Financial Cards and Payments – Chile, Euromonitor International, 2010. *Store Cards Transactions – Chile, Euromonitor International, 2010.*

8. Future Opportunities

a. Service

(Successful Retail Innovation in Emerging Markets: Latin American Companies Translate Smart Ideas into Profitable Business, Booz Allen Hamilton, 2007)

Service is identified as a highly valued attribute for emerging consumers. Nonetheless, they usually do not have positive experiences in this respect. It is common for them to find sales assistants too “sophisticated” to understand lower-income consumers, or believe that assistants have a cold, snobbish attitude toward them. Accustomed to not having technical assistance and good service, emerging consumers believe that complimentary services can only be obtained with higher prices.

Casas Bahía has become an example to emerging consumers and other households goods retailers in Brazil of how to make high-ticket items affordable through easily accessed credit and service. They have invested in tightening emotional proximity and creating a feeling of community with their customers. Most sales assistants are from nearby communities, which helps leverage local knowledge and provide support to credit decisions. Salespeople educate customers to buy in accordance with their budgets, in order to prevent default and avoid customer frustration.

b. Quality

(Successful Retail Innovation in Emerging Markets: Latin American Companies Translate Smart Ideas into Profitable Business, Booz Allen Hamilton, 2007)

“Can I find trendy, quality furniture at a reasonable price? Are my choices limited to traditional, unfashionable staple products if my budget is limited? Can I get higher-quality products at competitive prices?” In the minds of emerging consumers, the answers to these questions are, “No, yes and no.” They believe superior quality, which they generally associate with intermediate or leading brands, carries a premium in price. This belief can drive the purchasing process to the point where emerging consumers do not even compare prices and limit the number and type of stores that they visit. A D-class consumer in Chile stated, “I buy my clothes in La Polar or in Lider, because Falabella is not for me”. The same belief holds when emerging consumers shop for other products, such as furniture and electronics.

Casa & Ideas is a 24-store home décor retailer based in Chile, which has recently expanded to Peru, and has annual revenue of US\$55 million. The company has democratized design by offering affordable, exclusive, good-quality home décor products and defying the conventional wisdom that quality design products must come at prohibitive prices. From its original “quick and cheap” value proposition, it developed an offering of “colors and design” that has cost the same since 1999, targeting 25 to 65 year old women and creating a new market that has not yet been successfully copied by competitors. The Casa & Ideas model relies on a design team of 35 professionals responsible for maintaining a feeling of exclusivity via limited editions – that is, permanently developing new products. This capability, coupled with exclusivity agreements with suppliers from low-cost producing countries, allows a high product turnover.

c. Luxury

(Retailing: Future Scenarios (Part 1). How Might Changing Market Environments Affect Growth In Emerging Regions?, Euromonitor, 2011)

(Emerging Cities, BCG, 2010)

(Top Retail Trends, STORE Magazine and Deloitte, 2010)

The luxury market took a big hit from the economic recession. As the global economy recovers, the luxury market will too, but the end result will be quite different from the recent path.

Basically, there are two luxury markets. At the very high end, this market will do well: After all, even if a household experiences a decline in wealth from \$100 million to \$50 million, there is still plenty of money remaining to pay for an expensive handbag. Second, there is the aspirational luxury market. This involves households with sufficient incomes and wealth to purchase luxury items, but where such purchases have a noticeable impact on wealth. For these consumers, the recent recession led to a severe drop in perceived wealth and, therefore, willingness to engage in luxury spending. As the economy recovers, wealth will still be suppressed – especially housing wealth. Thus, the propensity of such consumers to purchase luxury items will be reduced for some time to come.

For luxury retailers, this will be a tough environment. Appealing to the aspirational consumer will require a greater focus on the issue of value, yet such an appeal could offend the sensibilities of high-end luxury shoppers. Thus, there may be a need for greater market segmentation on the part of luxury retailers and suppliers.

In addition, luxury sellers will shift their focus to the needs of aspirational shoppers in emerging markets like China. In such markets, the newly affluent are especially brand conscious and attracted to luxury brands. Such shoppers might be easier to attract than similar households in developed markets.

By 2015, emerging market cities will account for around 30% – or \$2.6 trillion – of the total global consumption of clothing and household items and these cities are already some of the fastest-growing markets for luxury goods in the world.

A younger working population, meanwhile, suggests higher levels of interest in luxury goods such as consumer electronics, homeware and furnishing as these workers set up their own households and baby and children's products as they start families, alongside a parallel trend now being seen in fast-moving economies towards high-value pet care products as consumers put careers before families but compensate by lavishing more income on domestic animals, their 'surrogate children'.

d. Women

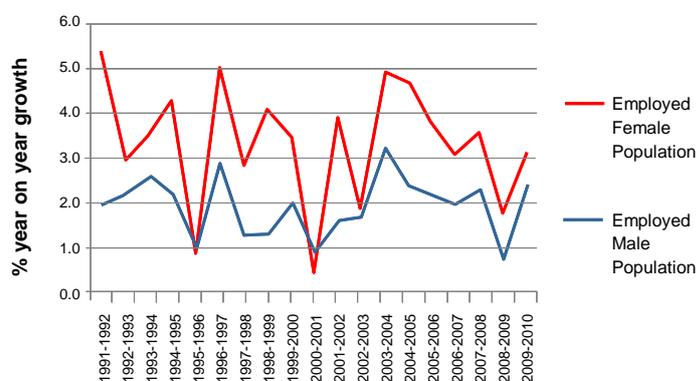
(Retailing: Future Scenarios (Part 1). How Might Changing Market Environments Affect Growth In Emerging Regions?, Euromonitor International, 2011)

A strong trend within this emerging region is the growing importance of the female consumer. Over the past two decades, the female economically active population has almost doubled; not only that, but employment levels appear to have become more resilient. Historically, when the region has seen economic difficulty, female employment growth tended to be hit much harder than male employment growth, but during the 2008-2009 downturn this was no longer the case.

Over the past two years, Latin America has been the only emerging region where sales of women's outerwear have grown faster than men's outerwear – one of the effects of the improved employment prospects of women. Clothing and footwear specialists are certainly one of the channels likely to benefit from this trend, as will stores specializing in accessories such as sunglasses and jewelry, beauty specialists and department stores positioned towards the premium end of the market. Direct selling, traditionally very strong within this region, may also benefit from the rising spending power of female consumers, although as more women enter full-time employment, the pool of representatives could shrink, and limit sales growth.

Figure 8.1

Employment by Gender in LATAM



Source: Retailing: Future Scenarios (Part 1). How Might Changing Market Environments. Affect Growth In Emerging Regions?, Euromonitor International, 2011).