

SOUTH AMERICA RETAIL

the **carlson**group

FORWARD

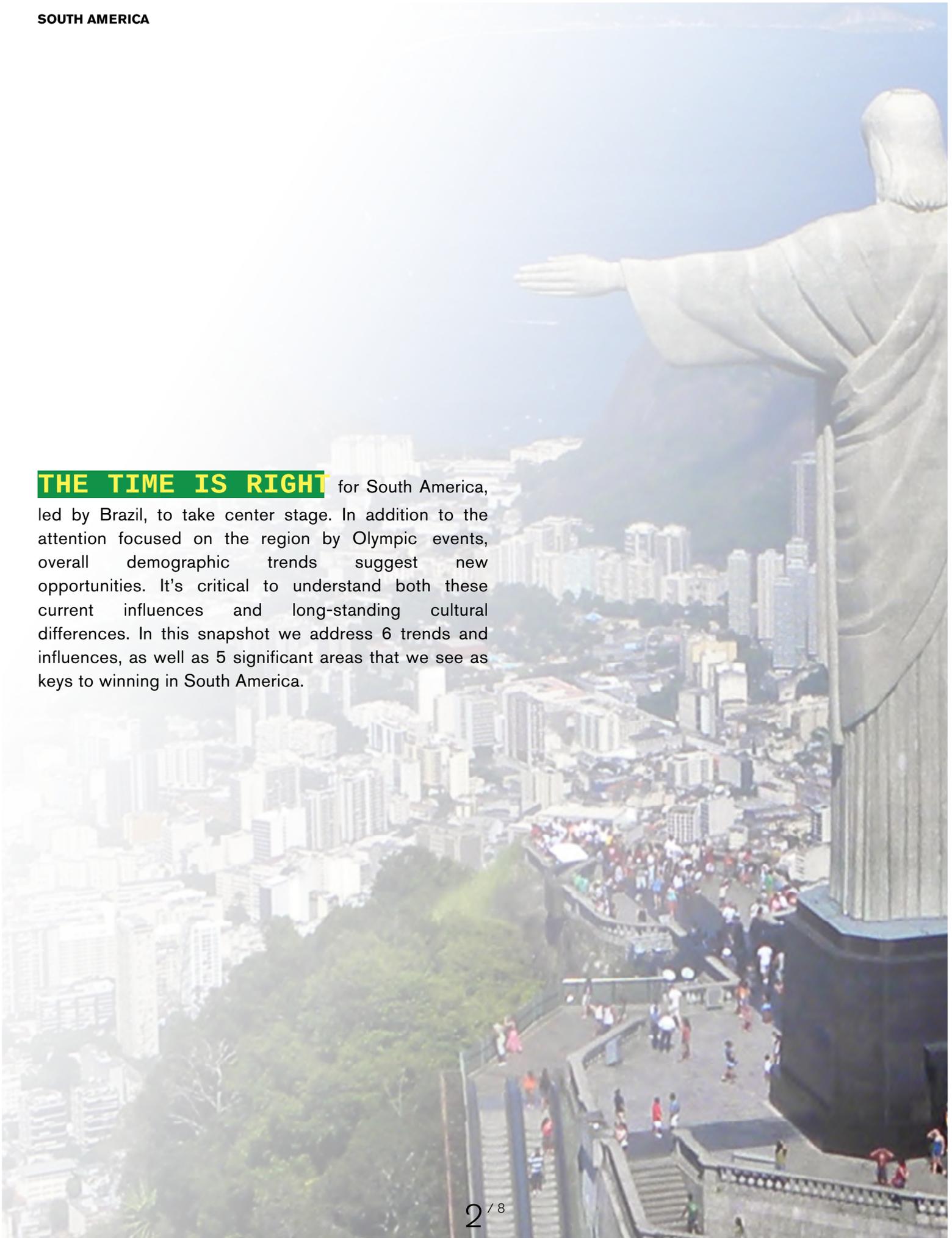
In the global view of retail opportunities, the significance of the BRIC markets has been emphasized for some time. To this point, China has dominated the conversation, especially among high profile and luxury brands. Don't expect the importance of China to diminish any time soon, but the stage is set for the spotlight to focus on another emerging economy: Brazil. As the Olympics bring increased visibility to Brazil, look for increased attention to the South America market overall.

Brands entering the South America market for the first time need to take a strategic approach that considers its unique characteristics, and primary trends which are influencing consumers, with specific considerations around the development of branded retail.

The Carlson Group's (TCG) approach to retail solutions is based on a process that delivers Total Program Value (TPV), which takes a comprehensive view of retail implementation. Together with our strategic partners, TCG provides a perspective on the attributes of retail strategy, design and implementation creating a foundation for success in the South America market.

The Carlson Group (TCG) opened an office in Porto Alegre, a manufacturing hub in Brazil. TCG Brazil offers brands and retailers comprehensive, local turn-key capabilities for delivering retail programs including importing, logistics, manufacturing, warehousing and installation.

THE TIME IS RIGHT for South America, led by Brazil, to take center stage. In addition to the attention focused on the region by Olympic events, overall demographic trends suggest new opportunities. It's critical to understand both these current influences and long-standing cultural differences. In this snapshot we address 6 trends and influences, as well as 5 significant areas that we see as keys to winning in South America.



TRENDS

1: CHANGING PATTERNS FOR WOMEN

South America's market is experiencing a dramatic increase in the percent of women in the workplace. This increase affects both how these women shop and what they see as priorities in the retail experience. Here are a few key considerations behind this pattern, which is anticipated to continue in the long term:

- > They have less time to shop. Where South America's shoppers have historically done extensive price-comparison shopping almost as a hobby, this is going by the wayside. The new woman shopper is still price-conscious, but convenience is now an equally major factor in her shopping decisions.
- > Her expectations around service are changing. There's less focus on the social side of the interaction, and more attention on how a good service experience increases her efficiency and makes shopping easier.
- > There's evidence of a growing interest in technologies and devices that make life easier. Where this has been a sector dominated by male consumers in this market, women are increasingly investing in these purchases as they move into the workplace.



2: THE GROWING MIDDLE CLASS

As consumers become more aware and sophisticated, the notion of value replaces price – quality is a new parameter. This is a universal pattern for emerging markets, as newly middle class customers begin to have disposable income they have the ability to make quality a deciding factor in their purchases.

- > There's more demand for foreign brands. The most up-to-date styles and technologies tend to start with global brands. Where the idea of 'local' has huge currency in the US and Europe, the novelty and desirability of foreign goods still dominates in emerging markets. Brazil's middle-class consumers are willing to pay three times more for an imported brand than for a similar product from an unknown brand.
- > The notion of value has both tangible and intangible meaning including status, uniqueness and the idea of goods as a means of personal expression. Again, this is a rising trend in South America that we've seen for some time now in China.
- > Middle class consumers are increasingly using the Internet for research, yet buying in store – but this will evolve. This market will leapfrog from using their home computers to focusing primarily on mobile phones to activate these capabilities.



3: THE SPOTLIGHT ON SPORTS

The upcoming Olympics represent an unparalleled opportunity for global brands. The focus on sports will have an unusually long duration due to the combination of these two events. Brand stores are not that widespread, but are increasing quickly in urban centers of South American countries with stable and booming economies such as Brazil, Chile, Colombia and Peru.

- > In Brazil, for example, local brand Predator has already opened an experiential retail venue combining high-end design, digital and social interaction with a presence for its star athletes.
- > As Nike, adidas and others move in with their retail and marketing expertise, deep pockets and a stable of globally recognized athletes, consumer expectations around the athletic category specifically, and retail in general, stand to be elevated.
- > The World Cup brought out Brazil's pride in their culture, with Brazil green and yellow dominating the color palette. Soccer is a national passion, and the team members, coaches and World Cup events will overtake the media in every possible way.



- > Brazilians wear sport apparel casually on weekends whether they're athletes or not. Most people are not concerned about performance or technology. It's more about wearing a valued known brand, or representing country and team.

4: SHOPPING IS ENTERTAINMENT

South America's consumers consider shopping to be entertainment, whether they're buying for everyday needs or for a special occasion. This is true across the full socio-economic spectrum, although the implications vary. Brands or retailers that offer the most engaging and enjoyable shopping experiences will have the greatest traction in the South America markets.

- > Consumers thus seek a more social and fulfilling experience, demand getting more services and options...when they go to a store and want a pleasant environment to enjoy what they are doing"

"Unleashing Latin American Shopper Needs"
- Coca-Cola Research Council by McKinsey & Company

- > Traditional malls may be on the decline here in the US, but for South America, the combination of retail, dining and entertainment in a single, safe and secure family destination has enormous appeal.
- > An elevated service experience is a key component of this aspect of shopping. For these consumers, "shopping...is a relaxing, everyday activity where they expect salesmen at the counter to treat them royally."

"Retail Sector in Brazil: Riding the Wave of Middle Class Growth and Consumer Credit Boom" – Thomas White Global Investing

5: GIFTING

Gift-giving as a significant element of social interaction is built into South American culture. This is true of all levels of society, but as consumers move into the middle and upper-middle classes, the importance of gifts that come from high-status foreign brands comes into play. The value placed on just the right gift in a social transaction suggests accommodating gift shoppers in a highly visible way within the retail environment.

- > Gifting is a 12-month proposition. As such, all brands, luxury brands in particular, are advised to have a permanent location which features gift items at a range of price points.
- > Presentation of these items is critical. Shoppers need to see how the gift will be packaged, wrapped and presented in the retail space.
- > There's a formal aspect to these transactions that's unique to gift-buying. An elevated level of service and expertise is required, so that the consumer feels confident they're selecting the right gift for each situation. Foreign brands need to ensure these areas are staffed with employees who understand the cultural nuances of gift-giving.

6: DIGITAL CONSUMERS

"More than half of Brazilians over the age of 13 (55%) are iConsumers—that is, they have internet access—a percentage that is well ahead of their fellow BRICS, China and India"

Getting to know you: How Brazil's consumers use the Internet –
McKinsey & Company

- > Brazilians spend much more time socializing on the internet than consumers in other emerging markets. Currently, they don't use the Internet much for shopping, but this is changing.
- > Jump ahead of competitors by looking for ways to incorporate tech into retail, especially for upper and upper middle class shoppers. The use of smartphones and the internet in South America is on the rise and will become an increasing element of the retail landscape. Over time consumers, especially value conscious shoppers, will begin using mobile devices in much the same way as their US counterparts – for price checking and reading reviews.
- > Change will come sooner than later. Given the rate of internet access among young people, brands and retailers moving into the market will inevitably need to leverage social channels to reach that desirable demographic. The upcoming global sports events, too, will speed change. As an example, the Brazilian government is pressuring for implementation of 4G technologies for the 2014 World Cup host cities.



CROSSWALK AT SHOPPING MALL, CURITIBA, BRAZIL

KEYS FOR SUCCESS

Our focus here is on aspects of success that can be affected by sound retail strategy, design and approach for implementation – key components of TPV. These areas are outlined under Design, Implementation and Service. In addition, Physical and Emotional, and Sports deserve brief mention as being critical metrics for winning in this market. The final aspect of TPV – evaluation – is essential in fine-tuning the program to a new and rapidly changing market. The most successful brands in South America will be those who invest the time and resources to monitor, evaluate and adjust their approach.

1: DESIGN

- > The first phase of TPV, discovery, ensures that the stage is set to address the realities of the South American market. Awareness of its unique qualities, from consumer trends to typical retail space characteristics, will help to tailor a brand's approach.
- > Design programs to work in retail spaces that are smaller than those available in US markets. Attention to the upscale feel of the shopping experience may extend to things like a fragrance element.
- > For global brands, aesthetics should mirror current brand visual and communication standards. Adaptations and material replacement are necessary to fit to local resources, but consumers value the authentic brand experience.

2: IMPLEMENTATION

- > Manufacturing and sourcing in South America comes with a unique set of complexities. Both quality control and meeting deadlines can be challenges unless you find the right vendors. Using local and regional partners is conducive to retail programs with aggressive speed to market timelines and where localization requirements are needed. A local partner will be key to navigating a complex structure of taxes and regulations, as well as, ensuring that reliable sources are in place. This partner should have an operating office, with foreign national staff working with vetted supply chain resources to carry a program through all facets including fabrication, fulfillment and installation.
- > In our Retail In China snapshot we point out similar considerations for operating in China. One key distinction between these two markets is cost. China manufacturing, including import taxes, is still significantly more cost effective than producing locally in South America. For global program roll outs, we encourage brands and retailers to leverage China manufacturing cost efficiencies and use local resources to help manage all logistics of a retail program including importing, warehousing and installation. Single sourcing from China not only reduces costs it helps provide a high level of brand consistency.
- > Documentation of programs must be in the local language and the metric system. Extensive illustrations or photography to guide construction will help to realize a seamless translation. Full illustration of merchandising and product presentation standards will ensure continuity. Lastly, hard copies are still needed – not everyone works with digital files.

3: SERVICE

- > Develop an approach that focuses attention on the consumer and offers a high level of personalized interaction. Based on location and availability of space, consider a range of service features that add to the consumer experience.
- > In larger format stores, add elements that extend the experience beyond shopping, such as a lounge area or refreshments. Anything the retailer can do to help turn shopping to more of an outing will be well received by this market.
- > In a small space, focus on delivering a curated selection and category-specific presentation that caters to a targeted audience, adding to the perception of value.
- > With the importance of gifting in South America, particularly among the upper and upper middle class, understand that consumers expect services such as gift-wrapping. Pay attention to promotional or limited-edition products which could fall into the gift category.

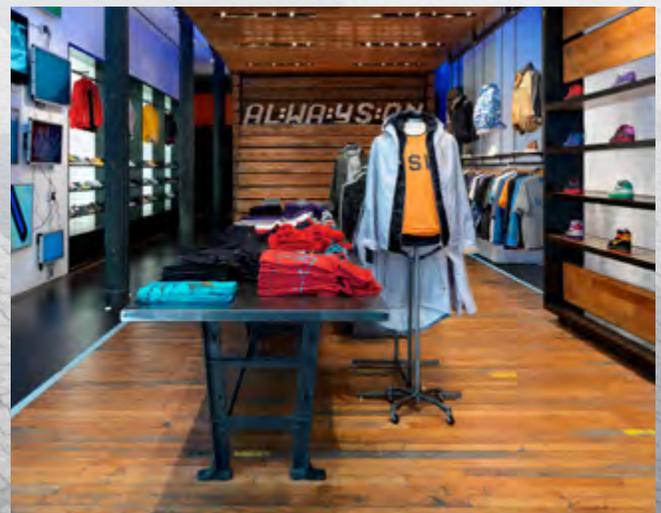
4: PHYSICAL AND EMOTIONAL

- > Online purchase in South America has not yet really taken off. Consumers' desire to get products in hand – which very much ties in with their emotional needs. The social and experiential nature of shopping for South American consumers isn't something they are able to find online.

- > Offer them the fullest possible retail engagement – high-touch and high-service. Make sure that if you're one of those highly desirable global brands that there's a premium look and feel in the experience and environment which lives up to your reputation.

5: SPORTS

- > As global athletic brands know, South Americans live and breathe soccer. With the focus on this sport and the World Cup, to ignore soccer is to ignore the culture. Combine this with the Olympics, and athletic brands, particularly if they sponsor local athletes, have a unique opportunity over the next couple of years to solidify their position in this market.
- > As these events draw near, expect more international influence in the market. Specifically, sportswear apparel and equipment brands will be looking for ways to connect with this market. Global brands need to use every tool at their disposal to stand out, drawing on and activating the excitement of these iconic events.



NIKE STORE IN BRAZIL

TAKE - AWAYS

- > Bring your brand's authenticity with you. It is the essential and inimitable advantage that you have over local brands. Maintain a premium impression, and use every possible channel of delivery to leverage your brand's equity.
- > Think ahead, and anticipate the trends that are shaping this market for the future. Have a strategy that considers the importance of women, the emerging middle class and the prevalence of technology in the retail sector.
- > Address the realities of retail in South America, and design a program with those parameters in mind. Visually document your program thoroughly to aid your local partners in expertly translating your brand presence.
- > Develop an implementation strategy that harnesses the retail expertise of the US brand to local partners' knowledge and connections in the local markets. Ensure that your expertise is present to partners on an ongoing basis, to promote maintenance and development of your retail presence in South America
- > Take advantage of unique opportunities. Create a can't-miss offering for the gift-giver. For the athletic category, don't miss the window for the once-in-a-lifetime visibility that foreign brands will have during the World Cup and Olympics.

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As a strategic partner, The Carlson Group incubates, builds and sustains smart custom programs that deliver value across consumer retail experiences.