The Retail Sector in Latin America

Some reflections on the A T Kearney 2011 Global Retail Development Index

Gabriela Castro, Director, Sunny Sky Solutions May 2012 (updated April 2014)

Overview

Given the opportunities that the retail sector in Latin America offers UK businesses, we have summarised below findings from a prestigious report. This is not an original research piece but will reference all sources and will give businesses a good first look at retail opportunities in Latin America. We have also linked this article to our previous blogs so that you can find specific information quickly, and have added updated information and sector news.

If you are interested in exploring retailing opportunities in Latin America, we would be delighted to hear from you. Please contact global@sunnyskysolutions.co.uk – thank you.

Why retailers in the UK should look at Latin America:

- Sustained strong economic growth
- Growth of the middle class (estimated by UKTI at 300 million)
- World-class events taking place, particularly in Brazil

Obstacles:

- Complex legislation and regulation including employment laws
- Bureaucracy and the time it takes to do business and make profit
- Corruption
- Import duties and trade barriers
- General lack of understanding of the markets
- Intellectual property concerns

How we can help you:

Sunny Sky Solutions can support you in understanding these markets better, in terms of competition, pricing and access. If you are interested in distribution, we offer a thorough distributor recruitment service. If you are interested in setting up your own operations in Latin America, we can also help.

A T Kearney's Global Retail Development Index 2011 was actually topped by three Latin American countries: Brazil, Uruguay and Chile, with Peru coming 8th in the ranking. This is what their **"Retail Global Expansion: A Portfolio of Opportunities" (2011)** has to say about these key retail economies:

Brazil

"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, signalling 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 United Kingdom'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 United Kingdom'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 are now planning 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 isn't 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 Wal-Mart has faced resistance from local associations due to its aggressive pricing."

For more information on trading with Brazil, please read our blog post here.

Many businesses are now targeting Brazil, such as Burberry, Mothercare (which already operates franchises across Latin America), and Adolfo Domínguez from Spain, opening 25 stores. The boom of franchising in Brazil was recently reported by the BBC.

Uruguay

"Uruguay climbs to 2nd place this year, following a 6.5 percent compound annual growth rate (CAGR) since 2006, including 8.5 percent growth in 2010—both in large part a result of Brazil's growth. Uruguay is relatively small, with a population of 3.4 million, and nearly 95 percent of the population has easy access to urban areas. The country's limited scale and positive macroeconomic conditions make it an appealing choice for retailers seeking more "contained" markets, in which they can exercise greater control and test concepts before entering other South American markets.[...] *The market for large and international retailers is concentrated in Montevideo and its surroundings. Local brands, with the exception of France-based Groupe Casino, control most shopping mall and supermarket environments, and hypermarkets are still limited due to government restrictions on store size in local neighbourhoods. Tackling the dynamics of the Montevideo market and seasonal demand in tourist areas are critical success factors. The pressure to enter the market is not particularly high today since there has not been significant investment in retail real estate, but Uruguay is one to watch as the infrastructure catches up to the market's potential."*

For more information on the potential of Uruguay as a first step into South America, read our blog post here.

Retailers already present in Uruguay include Spanish retailer Zara (actually present in almost all Latin American countries), Crocs, Hush Puppies, and Merrell. Gap have announced they are opening a store (also in Colombia and Peru).

Chile

"Chile rises three spots to 3rd place, after a strong recovery from the 2009 recession. It is now considered one of Latin America's most competitive and promising retail markets. Chile's retail sector is projected to grow 10 percent 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 percent GDP growth in 2010 and an expected growth of 6.1 percent in 2011. However, these incentives will decrease throughout 2011, as the government continues to redirect spending to infrastructure development following the 2010 earthquake. Chile's political environment is considered fairly stable, and President Sebastián Piñera, a billionaire businessman, is planning structural reform to increase market competitiveness.

The nation of 17.1 million has a heavily concentrated market, with the top five grocery retailers commanding almost 60 percent 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."

We have explored multinational businesses actually originated in Chile in our blog post about "multilatinas" click here

Peru

"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 and 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. [...]

Foreign retailers are investing heavily in Peru. Cencosud, which runs Peru's Wong chain, 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."

Mexico

"Mexico remains an attractive destination for retailers due to its growing middle class, a retail sector that is expected to expand 12 percent 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.[...]

Given the grocery segment's saturation, attention has shifted to specialty retail. U.S. 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, Inc., 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."

Update: In May 2012, Lacoste announced that it would open three new stores in Mexico by the end of the year and H&M are also targeting this market. Agatha Ruiz de la Prada, a famous Spanish brand, has also aimed at Mexico and other Latin American markets over the last year.

Colombia

"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"

Panama

"Panama's economy is experiencing an economic boom and is one of Latin America's fastest-growing and best-managed markets. In the past five years, Panama's GDP growth of 6.1 percent and GDP per capita growth of 6.9 percent have been among Latin America's highest. While Panama is relatively small (population 3.5 million), a few factors position it as a key retail location: There has been a recent real estate and infrastructure boom, the country is becoming a key financial hub (in addition to being a key transportation and logistics hub), and its economy is based on the dollar. Retailers are entering the market (for example, Juicy Couture), while others that are already present (such as Nautica) are expanding and opening new stores."

Dominican Republic

"The country of 9.9 million has experienced significant expansion in shopping space with three large malls currently under construction. Luxury (Louis Vuitton and Cartier) and mid-level (Nike, Desigual and Timberland) retailers are entering as Santo Domingo becomes the Caribbean's shopping capital."

For more information and to discuss working together, please contact Gabriela Castro at global@sunnyskysolutions.co.uk or call +44 (0)131 208 2594 (charged at local rate even when picked up overseas).

Also, visit www.sunnyskysolutions.co.uk to sign up for our free monthly e-newsletter.