

# Retailers shift focus to the "other America"

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**Although Latin America only represents 6.8 percent of world GDP, its rapidly growing middle class portends exciting opportunities for the retail sector.**

Asia-Pacific may currently be the world's dominant growth region, due primarily to the sheer number of inhabitants currently of working age.

However, the strongest long-term growth prospects are offered by Latin America and the Middle East, whose burgeoning populations of younger inhabitants will soon join the labor force.

In the case of Latin America, the growing middle class and increased purchasing power in many countries are opening up new markets in the retail sector.

In their paper, "[Retail in Latin America: Trends, Challenges and Opportunities](#)," IESE's [Mario Capizzani](#), Felipe Javier Ramírez Huerta and [Paulo Rocha e Oliveira](#) analyze these opportunities on a country-by-country basis, mindful of the significant differences that exist between the countries that make up the continent.

## Urban explosion

One third of the world's population — roughly 2.6 billion people — live in cities in emerging markets. By 2030, the numbers of emerging-market urban dwellers are forecast to increase by another 1.3 billion.

To put this in context, cities in developed markets will only add roughly 100 million new

residents during the same period.

This unprecedented growth in urban populations will fundamentally change the competitive landscape, as the emerging middle class in these new markets pushes up consumer demand.

Some 26 million households in Latin America joined the middle class during the 1996-2010 period. However, the authors point out that that this rosy picture masks a 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.

## **Small still beautiful**

Traditionally, most consumers' needs in the region have been met by small retailers.

While a growing portion of emerging customers are attracted to large supermarkets, most of the 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 deciding factor for preferring certain outlets over similarly priced competitors.

For now, the need for credit is not a factor in drawing consumers away from small-scale stores. Although they may come up short on small purchases, consumers often rely on informal credit, by which small retailers allow their regular customers to make up the difference the next time they shop.

This saves them from the embarrassment of having to remove purchases at the time of payment.

## **Going global**

Of the emerging-market retailers in the region that have achieved impressive economies of scale, many — particularly those in Brazil, Chile and Mexico — 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.

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.

Online retailing is also expanding rapidly, nearly tripling in size over the past five years to generate sales of \$12 billion in 2010. The same year saw Latin America top Internet retailing growth globally, achieving a 24 percent increase.

The region is expected to remain the fastest growing in this sector over the next five years.

## **Women leading the way**

Another important factor in the region's retail growth is the changing status and buying power of women.

Brazil, for example, has experienced a significant influx of young women joining the labor force. These women, in their early 20s and 30s, are characterized by their interest in advancing their careers and investing in their education. They work long hours and many learn second languages.

In Mexico, too, more women are joining the workforce, with an increase from 14.7 million in 2005 to 16.3 million in 2009, a growth of 10.4 percent. Nevertheless, women still only make up 35 percent of the Mexican workforce.

Across all of Latin America, over the past two decades the economically active female population has doubled, and their employment levels appear to have become more resilient.

Historically, when the region has seen economic difficulty, female employment has tended to take the brunt of the impact. However, this was not the case in the 2008-09 downturn.

Indeed, over the past two years, sales of women's clothes in Latin America have grown faster than men's clothing sales. Given such resilience, the sector represents an enticing opportunity for retailers.

## **A burgeoning middle class**

Favorable economic conditions in recent years have propelled many Brazilians into the middle class, which now represents close to 50 percent of the population.

Brazilian demographics are changing steadily as life expectancy continues to rise while fertility rates decline, all of which influences consumer habits and expenditure.

Many elderly people are receiving income from their pensions, as well as getting help from their families. As a result, they, too, have greater purchasing power.

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

A younger working population, meanwhile, portends higher levels of interest in goods such as textiles and consumer electronics. And as these workers set up their households and start their own families, new opportunities will no doubt arise in markets for homeware and for baby and children's products.

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